

# Financial Melee

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## Disclaimer

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## 1 Introduction

Investing has long been regarded as the deliberate act of allocating resources, predominantly money, in anticipation of obtaining a return or profit. From ancient times to the present day, investing has been an integral part of human behavior. In other words, we always have been saving up for a rainy day. In earlier times, we made use of physical assets such as precious metals, livestock, and land to invest. These tangible assets were seen as 'stores of value', capable of yielding benefits (such as milk, or crop). They also came in handy during times of duress such as war or famine. However, this was not the only motive behind investments. Another key motive was to ensure the compounding of wealth.

The concept of compounding pertains to the phenomenon where an asset's earnings, from either capital gains or interest, are reinvested to generate additional earnings over time. In the contemporary classic, "The Psychology of Money," author Morgan Housel dives deep into

the behavioral and psychological aspects of money and investing. He postulates that the mechanics of finance often conflict with the intuitive way humans think. Housel emphasizes the power of compounding, describing it as a force multiplier in the realm of investments. He states, "if something compounds—if a little growth provides fuel for future growth—a small starting point can lead to results that seem bewildering in scale." This perspective shines a light on the counter intuitive nature of investing. Often, the true potential of an investment, its capacity for growth, and its long-term impact are underestimated due to our natural inclinations and biases. The underlying intention with every investment, whether recognized or not, is to set one's money in motion—to allow it to generate more money. In essence, it's the principle of making money 'work for them,' enabling individuals to focus on aspects of life beyond just earning. In the era of modern finance, with technological advancements, the scope and methods of investing have expanded significantly from simple barter trades to highly sophisticated transactions.

Today's investors, be they novices or seasoned experts, have a plethora of options at their disposal ranging from established avenues such as stocks, bonds, and mutual funds to contemporary assets like digital gold, cryptocurrencies, and derivatives. It would be an understatement to say that financial markets are bustling with opportunities. The ubiquity

of the internet and the proliferation of financial technology platforms mean that today, making an investment is often as straightforward as a click of a button or a quick tap on a mobile device. Needless to say, this ease of access has democratized investing, allowing people from all walks of life to participate in the global economy. Interestingly, the complexity in the world of finance has also made it difficult for individuals to choose one particular investment vehicle over another. Therefore, it is not uncommon for individuals to seek advice for ‘experts’ in matters pertaining to finance.

## 2 Wealth Managers

Wealth managers have become indispensable to many, particularly the uber-rich, overseeing vast amounts of money and deeply personal aspects of their clients’ lives. Found in major cities such as Geneva and New York, they often possess insider knowledge of their clients’ most private affairs. However, it wasn’t until recently that wealth management, once a niche segment, emerged as the most lucrative sector in finance. Post the 2007-09 financial crisis, industries like lending and trading became cumbersome and costly, making the leaner, high-margin wealth management industry more attractive. Global wealth growth has been astounding; from 2000 to 2020, it surged from 160trillion to 510 trillion. A forecast from consultancy Bain suggests that global wealth-management revenues might double from 255billion to 510 billion, thanks to factors like geographical expansion, changing demography, and technological innovations. This has piqued the interest of investment banks like Goldman Sachs, JP Morgan Chase, Morgan Stanley, and UBS. A recent article in the Economist argues that wealth management, once a “sleepy, unsophisticated corner of finance” , could very well be

the “industry’s future”.

In India, wealth managers play a critical role in navigating the unique financial landscape of one of the world’s fastest-growing economies. Catering to a diverse clientele, ranging from burgeoning middle-class families to high-net-worth individuals and entrepreneurs, these professionals offer tailored financial advice, asset allocation, and investment strategies. Given the country’s intricate regulatory environment, changing tax laws, and diverse investment avenues, wealth managers assist clients in making informed decisions that align with their financial goals and risk appetites. They also play a pivotal role in estate planning, tax optimization, and ensuring compliance with local regulations. With India’s rising affluence, particularly in its tech and startup sectors, there’s a growing demand for sophisticated financial planning services. Thus, wealth managers are increasingly integrating modern financial technologies and digital platforms to provide more holistic and real-time solutions, ensuring their clients’ portfolios are resilient and future-ready in the ever-evolving Indian market. However, all is not well in the paradise of finance. The surge in internet use and its democratization has led to a new class of players in the ecosystem - the ‘finfluencers’.

## 3 The Rise of the Finfluencer

The financial landscape has undergone a significant metamorphosis over the past few years, shifting from the traditional dominance of classical financial advisors to the rising influence of new age ‘finfluencers’. Both have their unique place in the financial cosmos, offering different values and reaching distinct audiences.

Classical financial advisors, typically associated with institutional brands, have been the cornerstone of the financial industry for

decades. They bring with them a combination of formal education, industry certifications, and often, years of hands-on experience. These advisors have traditionally operated in brick-and-mortar settings, offering personalized advice based on detailed financial analyses and long-term relationships with their clients. Trust is built on the foundation of face-to-face interactions, a deep understanding of client needs, and the backing of well-established financial institutions.

On the flip side, the new age ‘finfluencer’ is a product of the digital era. Harnessing the power of social media platforms like YouTube, Instagram, TikTok, and Twitter, finfluencers have democratized financial knowledge, breaking it down into more digestible, engaging, and often entertaining content. These influencers may or may not have formal financial education, but they resonate with the younger generation who are looking for quick, accessible, and relatable financial insights. They provide value by leveraging storytelling, leveraging visuals, and often personalizing content based on their own financial journeys.

However, this democratization comes with its challenges. The advice of finfluencers is often broad and generalized, not tailored to individual needs. The risk of misinformation is higher, given that there’s no regulatory body overseeing the advice dispensed on social media. In contrast, classical advisors are bound by their professional bodies and can be held liable for the advice they provide.

The fact that their rise co-occurred with the covid lockdown is likely not coincidental. During the COVID-19 years, India witnessed a significant shift in the investment habits of its youth. As the pandemic disrupted traditional modes of employment and prompted a re-assessment of financial priorities, many young Indians, driven by a combination of increased financial awareness and the availability of online investment platforms, turned to the stock

market and other investment avenues. The rise of user-friendly trading apps and platforms democratized access to financial markets, allowing even novices to dabble in stock trading, mutual funds, and digital assets like cryptocurrencies. Webinars, online courses, and financial literacy campaigns further fueled this trend, making investment knowledge more accessible. Additionally, as interest rates on traditional savings instruments fell, the younger demographic sought better returns through equities and direct investments. This newfound enthusiasm is not just indicative of a short-term trend but might signal a fundamental shift in the financial behavior of India’s youth, emphasizing the importance of long-term financial planning and wealth creation in a post-pandemic world.

There is no denying the impact that these finfluencers played in building this trend. They have opened up conversations around financial literacy to a wider audience, many of whom might have felt alienated or overwhelmed by the traditional financial setup. They’ve broken barriers, making finance more inclusive and approachable. While traditional advisors offer depth, personalized advice, and a tried-and-tested approach, finfluencers provide breadth, accessibility, and a fresh perspective. Despite the many positives that these changes brought forth, there were many issues that needed to be highlighted as well.

## 4 Regulation Incoming

There is no denying that governments across the world play an active role in ensuring the interests of the common man are protected. In India, the Securities and Exchange Board takes on this responsibility. Established in 1988 and empowered statutorily in 1992, its primary goal is to safeguard investors’ interests by ensuring transparency and accuracy in

disclosures from companies and intermediaries. As a regulatory body, SEBI formulates and enforces regulations for various market intermediaries, including stock exchanges, brokers, and mutual funds. One of its critical mandates is to combat insider trading, ensuring that malpractices are identified and penalized. Additionally, SEBI oversees the takeover of companies, ensuring that the process remains transparent and adheres to the legal framework. Furthermore, it plays a pivotal role in the development of the securities market by introducing innovative measures, facilitating the introduction of new products, and streamlining existing processes. Investor education is another area of focus for SEBI; it regularly conducts campaigns and workshops to promote informed decision-making among investors. When rules are violated, SEBI possesses the authority to carry out investigations and audits, imposing fines or sanctions when necessary. In essence, SEBI's multifaceted role seeks to promote fairness, efficiency, and integrity in India's financial markets, ensuring a trustworthy and stable environment for both investors and stakeholders.

Several influencers are currently under SEBI's scrutiny for sharing manipulated profit and loss (P&L) screenshots, leading to calls for their regulation. These fake P L records artificially boost the influencers' credibility, enabling them to earn through referrals, paid memberships for stock advice, and potentially manipulative stock promotions. The fabrication can lead followers, some from lower income groups, into severe financial distress, and in some cases, tragic outcomes. Various methods were employed to fake these records, including using clone apps that mimic legitimate broking platforms and editing tools like Adobe Photoshop. The controversy was highlighted when prominent influencers such as Dinesh Kirola, Ghanshyam Tech, and Abhishek Kar were found or suspected to be involved in such

practices. The issue gained more attention after reports from notable financial journalists and platforms. Akshat Shrivastava, another influencer, responded by challenging media outlets to uphold the same standards as influencers. Amidst the controversy, SEBI proposed banning its regulated entities from associating with unregistered influencers and introduced an initiative for validating performance claims. Zerodha introduced a Verified P&L feature, though it has its critics who point out its limitations. While the term "influencers" is used broadly in this context, it's crucial to recognize that not all involved in this space are engaging in deceitful practices.

Global trends show that investing has become entertainment-centric. Zero-day options, particularly in meme stocks, have grown in popularity. One need not look further than the famous 'Wall Street Bets' subreddit to find proof of this. There are several Indian equivalents of the same too. Such financial contracts are available daily as well. Retail participation in traditional securities has decreased to 63 percent, while in index options, it's risen to 84 percent. Competition too is heating up. Major entities like the Bombay Stock Exchange are increasing their share in index options. Additionally, Mukesh Ambani's Jio Financial Services Ltd. is entering the digital broking realm, where influencers play a crucial role in customer acquisition.

However, concerns arise when influencers dishonestly showcase their successes. Many traders in India's equity derivatives market suffer losses, and the authenticity of influencer claims can be dubious. Platforms like Zerodha and Sensibull have tried to verify users' returns, but deceptive practices persist.

In May, SEBI took action against P R Sundar, an options trader who allegedly sold investment advice via Telegram without proper registration. Sundar and his affiliates, without admitting guilt, agreed to a one-year trading

ban and paid over USD 700,000 in disgorgement. Despite these actions, unregulated financial influencers, or "finfluencers", continue to thrive. The Indian regulator aims to challenge their revenue model by urging all regulated entities to sever ties with them.

## 5 The voice of the Finfluencers

Influencers, particularly those originating from social media platforms, often raise several arguments against traditional media figures and platforms. For example, India's media landscape includes news anchors and experts offering buy/sell recommendations, a practice that's largely been ignored by the regulator. The limited number of SEBI-registered advisors, less than 1,400 for a population of 1.4 billion, further complicates matters. This fact however has remained largely unheard of in the popular press- and for good (sarcasm intended) reason.

Many influencers argue that they offer a more genuine and personal connection to their audience compared to traditional media figures. They often pride themselves on being more relatable, sharing personal experiences, and interacting directly with followers. Furthermore, social media influencers can interact with their audience in real-time through comments, live streams, and direct messages. They argue that this direct engagement fosters a stronger bond and understanding with their followers, something traditional media can't replicate. Many influencers believe that social media has democratized content creation. Unlike traditional media, which often requires significant capital and connections to break into, social media platforms allow anyone with a smartphone to potentially become an influencer. Furthermore, influencers can cater to very specific niches, something traditional me-

dia often can't do because of the need for broader appeal. This specialization allows for deep connections with specific communities. This would simply be impossible to do so in the case of traditional media that often functions at arms length.

Social media influencers often pride themselves on their ability to quickly adapt to trends, platform changes, and audience preferences. In contrast, they view traditional media as slower and less agile. Some influencers criticize traditional media for having biases or corporate agendas due to ownership structures, advertising dependencies, or political affiliations. They argue that being independent from such structures allows them to provide more unbiased content. Since influencers often have more direct control over their monetization strategies, from brand collaborations to merchandise they argue that this direct model without middlemen (like production houses or agencies) can often be more lucrative and transparent. Therefore, there is some credence to the argument that traditional media is likely more susceptible to censorship and external pressures, whereas social media allows for more freedom of expression.

However, it's essential to note that the landscape of media and influence is complex, and not all influencers or traditional media figures might share or oppose these views. Additionally, with the lines blurring between traditional media and influencer content, many individuals operate within both spheres. The SEBI's intentions to regulate this space may be overshadowed by broader societal trends, such as YouTube's recent partnership with an influencer, indicating the uphill battle the regulator faces in this evolving landscape.

## 6 Conclusion

The landscape of new age financial products is vast and varied, a testament to the accelerated pace of technological innovation and an ever-evolving global market. The integration of cutting-edge technology into the financial sector has paved the way for groundbreaking products and services that were once considered futuristic. From digital-only banks and cryptocurrencies to peer-to-peer lending platforms and robo-advisors, the choices available to consumers have never been so diverse. This evolution reflects the dynamic interplay of technology, market demands, and shifting consumer preferences. Technology, in particular, acts as a powerful catalyst. With the rise of big data, machine learning, and AI, financial institutions are now equipped to tailor their products more closely to individual needs, making the services more accessible, convenient, and personalized than ever before. Market demands too have evolved, driven by a more globalized economy. With interconnected markets, there's a pressing need for financial products that cater to cross-border transactions, international investments, and diverse portfolios. The younger generation, with its distinct values and financial habits, also fuels this demand, often seeking out ethical investments, transparent operations, and digital-first solutions. Yet, these innovations aren't solely product-driven. Shifting consumer preferences play a substantial role. As consumers become more digitally savvy, there's an increasing demand for platforms and products that offer real-time access, transparency, and autonomy. Trust, once gained primarily through face-to-face interactions, is now also built via digital interactions, user-friendly interfaces, and peer reviews. However, while the burgeoning array of financial products offers enhanced flexibility and opportunities, it's not without its set of challenges. The rapid pace of innovation

can sometimes outstrip regulatory measures, leading to grey areas where ethical and legal boundaries are blurred. Additionally, the influx of technology in finance means that both consumers and businesses are susceptible to cyber threats, data breaches, and digital frauds. Understanding the nuanced behavior of consumers in this modern financial landscape is not just beneficial—it's essential. It's pivotal for businesses to anticipate market trends, align their offerings with consumer expectations, and maintain a competitive edge. For regulators, grasping these behaviors is crucial to frame policies that safeguard consumer interests, ensure market integrity, and promote the sector's sustainable and ethical growth. In conclusion, as the financial sector continues to morph in response to technological advances, market demands, and consumer preferences, all stakeholders must remain proactive in their approach. By understanding and addressing the intricacies of consumer behavior, businesses and regulators can navigate this new age of finance with foresight and responsibility.

## 7 Instructions to Students

The following are the instructions for students:

1. Exam Structure: The exam will be case-based. It shall be for a duration of 2 hours.
2. Pre-exam Access: You will receive the case approx 24 hours in advance in a machine-readable format.
3. Utilize AI: You are permitted to use AI tools to analyze the case during the 24 hours.
4. Research & Analysis: Explore related content, cross-reference information, and deepen your understanding.
5. Exam Hall Reference: Only your A4 note-sheet will be allowed for reference during the exam.
6. Leverage Prior Learnings: Incorporate lessons from discussions, explorations, and relevant first-year compulsory courses.
7. Limit your answers to 3 pages.
8. Grading System: Rather than traditional marks, each question will be graded as Great, Good, or Poor. These grades will be converted to numerical values to compute your final grade for the exam.
9. Questions 1 to 5 are worth 5 marks each (poor = 1 mark, good = 3 marks, great = 5 marks)
10. Question 6 is not graded. It is designed to provoke thought, and you are encouraged to consider it. If you decide to respond, you may use an extra page.

Remember to apply your knowledge effectively and thoroughly throughout the exam process. Good luck!

## 8 The Exam

Please answer the following questions.

1. Analyze how consumers might have been conditioned to associate credibility with specific visual cues, such as P&L screenshots, in the financial influencer domain.
2. Imagine you are a financial influencer (finfluencer). Outline a strategy to expand your subscriber/reader/viewer base. Provide your strategy in 5 actionable steps.
3. How do finfluencers and traditional financial advisors differ in their view of the consumers? Use STP to substantiate your answer.
4. If you held a leadership position at SEBI, what strategy would you implement to safeguard the interests of retail investors? Ground your strategy in the theory of planned behavior. Note: Avoid generalized or vague statements.
5. Evaluate the degree to which a finfluencer's presentation style (e.g., graphs, animations, verbal commentary) influences the risk perception of retail investors. Anchor your response in the elaboration likelihood model of persuasion.
6. If you were a finfluencer trying to target a global audience with diverse financial backgrounds, how would you tailor your content strategy? Provide recommendations rooted in the theory of cultural dimensions.

All the best!!