

A Study of IEPF (Investor Education and Protection Fund): Investor Education and Unclaimed Asset Management

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Abstract

Investor protection is the foundation of an efficient financial system in a country. Keeping this in mind, India established the Investor Education and Protection Fund (IEPF) under Section 125 of the Companies Act, 2013. This is a statutory body that deals with investor education, protection and acts as a custodian of unclaimed investor assets. Previously, unclaimed assets in the form of shares, matured debentures, company deposits and dividends have remained unclaimed as the investors forgot their investments or lost track of them. Establishment of IEPF was the first step towards setting up a robust legal and institutional mechanism specially catering to investor protection. This research paper attempts to study the role of IEPF with respect to management of unclaimed dividends, shares, deposits and other such assets. It also examines the influence of IEPF on financial literacy and investor education on the investors. The paper is secondary data based analysing the rules, statutes, reports and academic literature on the subject. It also endeavours to find out the practical difficulties in implementing the IEPF agenda. The paper summarizes that although IEPF has paved the way for improved investor protection in India further efforts are needed for the common investors to actually benefit from the same.

Keywords: Investor Education and Protection Fund, Investor Protection, Unclaimed Shares, Companies Act

Introduction

Investor safety is essential for a healthy economy and financial environment of any country. Capital markets rely on the confidence of the investors that their investments are safe and secure. In a developing country like India the capital markets are fast expanding increasing the retail participation through the common people in shares and other corporate investment instruments. This expansion although beneficial has on the flip side also resulted in considerable build-up of

unclaimed shares, debentures, dividends and other financial assets of investors who have passed away, forgotten their investments or moved to a different address within the country or abroad.

In order to take care of such issues the Investor education and protection fund (IEPF) was established under the Companies act 1956, which was later covered even more extensively under section 125 of the Companies act, 2013. This was followed by the setting up of the Investor education and protection fund authority in 2016 that aimed at managing and refining the entire process of claiming the unclaimed assets and educating the investors through outreach programmes and awareness campaigns under the MCA (Ministry of Corporate Affairs).

The IEPF is entrusted with two major objectives. First and foremost, it provides a mechanism for safeguarding the unclaimed assets and funds by transferring the same to government designated fund. Secondly, it encourages investor awareness through financial literacy programmes addressing issues related to investment risks, rights of shareholders, prevention of financial frauds etc. These two objectives ensure investor confidence and provide for a more robust capital market in the country.

In spite of the effectiveness of the enacted statute framework, numerous practical problems continue unaddressed. The investors face challenges with respect to procedural delays, lengthy documentation and technical glitches in filling online forms. The difficulties are further augmented for senior citizens and legal heirs living abroad who face substantial adversities in reclaiming their investments. These challenges show that only statute enactment is not sufficient and amendments are necessary for the objectives to be met.

This paper attempts to analyse the IEPF legal framework and its role in achieving the desired objectives, identify and recommend measures to improve the functioning of IEPF.

Research Objectives

This study attempts to achieve the following objectives:

1. To study the legal framework of Investor Education and Protection Fund in India.

2. To assess the effectiveness of IEPF Authority in promoting investor education and financial literacy.
3. To ascertain the practical difficulties in reclaiming the financial assets transferred to the IEPF.
4. To recommend measures for improving the IEPF framework.

Research Methodology

This is qualitative research primarily based on secondary data. The research data mainly comprises of published peer reviewed academic research papers, newsletters, government data, and statutes. The Companies act, 2013 is the main legal source specifically sections 124 and 125. This paper is doctrinal in nature and no primary data collection was undertaken.

Legal Framework Governing the IEPF

There exists a comprehensive legal framework under the IEPF, that was first initiated under sec. 205C of the companies act, 1956. The primary aim was to ensure that unclaimed investor assets did not remain with the companies indefinitely and instead could be used for the benefit of the investors. This initial framework was narrow and restricted, lacking an efficient working mechanism.

The companies act, 2013 made amendments to the original act, like mandatory requirement to transfer unpaid dividends to a separate "Unpaid dividend account" within seven days after expiry of thirty days from dividend declaration. Thereafter, if the amount remained unclaimed for a continuous period of seven years it is to be transferred to the Investor Education and Protection Fund. Section 125, specifies the types of amounts that are required to be transferred to the fund like unclaimed dividends, application money due for refund, matured deposits etc. The statute further ensures that even if the funds remain unclaimed, they are not mis utilised by the company and spent on investor education. The IEPF authorities function under the control of the Ministry of Corporate Affairs.

Role of the IEPF in Investor Education

The Indian Investment market has greatly diversified over the last few years, with multiple options now being explored by investors. This requires investors to be financially literate so that they are not defrauded and make informed decisions. It is here that the role of IEPF as an educator is significant. The IEPF authority working under the Ministry of corporate affairs conducts various educational programmes for the common investors informing them about their rights and obligations. Such programmes include conferences, workshops, public campaigns, publications and other collaborative attempts with professional bodies. In today's digital world social media platforms are also being increasingly used to spread awareness. Gullible investors are often the target of ponzi schemes due to inadequate financial knowledge. By creating a more educated investment environment in the country IEPF encourages timely nominee registration, KYC updation, monitoring dividend payments and regular portfolio reviews by the investors. IEPF

collaborate with schools and colleges to introduce financial literacy at the very basic level as it can help shape responsible investor behaviour in later ages. Separate programmes for other vulnerable sections of the society like the senior citizens, women and rural societies are undertaken as they require further guidance. Apart from the above information, working of the grievance redressal mechanisms needs to be disseminated to the investors.

However, the reality is that in spite of the above measures undertaken many investors are not even aware of IEPF authority. This shows a need for more intensive and collaborative efforts involving different stakeholders. Academicians can be roped in to design the financial literacy modules and their reach to the common man must be ensured.

Management of Unclaimed Assets under the IEPF

As per reports more than one lakh crores are presently unclaimed in the form of shares, dividends and deposits with the IEPF authority. This is a huge figure for a country like India and includes approximately 11,700 lakh shares and almost 5,700 crores in unclaimed dividends and deposits. These figures are not from just small and medium scale companies but include more than 3,000 listed companies, and the numbers are increasing every year. This is an unfortunate situation as many of these investors and their legal heirs belong to the lower and middle classes and are denied access to their hard-earned money.

One of the major roles of the IEPF authority is the custody and management of unclaimed financial assets of the investors. Failure to claim dividends, matured deposit amounts, debentures, etc within a particular time period leads to formation of unclaimed assets. Section 124 of the companies act, 2013 requires the companies to transfer the unclaimed dividends to a separate unpaid dividend account within seven days after expiry of thirty days from the declaration of dividend. Companies are required to maintain full information with respect to shareholders whose dividends remain unpaid and also update the same information on their website.

Similarly, unclaimed shares must also be transferred to IEPF in electronic format within the specified period ensuring companies do not hold on to the same and the rightful owners can reclaim their asset. Such transfers require coordination among the various authorities like the companies, depository, depository participants, company registrars, and the IEPF authority. Companies need to identify the eligible shares, notify the shareholders before transfer and ensure compliance.

Transfer of shares to IEPF does not absolve the right of the shareholder to claim their ownership. They continue to remain the owners and possess the right to reclaim their assets by following the prescribed procedure.

Refund Mechanism and Recovery Process

The major reform announced under the IEPF is the setting up of an organized refund mechanism. Investors whose unclaimed financial assets have been transferred to the IEPF can submit an online application for recovery through the official IEPF portal. The procedure involves filling up of form IEPF-5, that includes details with respect to the company, shareholder, dividend information and other specified documents that generally include:

- Identity proof
- Details of PAN
- Details of Aadhar
- Client master list (with respect to demat accounts available with the DP)
- Original physical shares (if not dematerialised)
- Indemnity bond etc.

Few other documents like the will, legal heir certificate or No objection certificate may further be required in certain cases, especially where the legal heirs are more than one.

After verification of the documents from the concerned company and transfer agent the IEPF authority approves the refund. Substituting the manual procedure with the online system has considerably enhanced the procedural efficiency. Digitalization of the refund process leads to greater transparency and reduced paperwork making it easier for the applicants to trace the status of their application.

In spite of these changes' applicants continue to face difficulties and delays. These difficulties are further compounded in case of legal heirs trying to establish their entitlement to the assets in absence of relevant succession documents. Senior citizens and NRI investors are also subject to hindrances due to the procedural complexities like requirement of notarized documents, verification and coordination with numerous bodies. The refund mechanism requires simplification to ensure that it is implemented effectively.

Critical Analysis of the Framework

The IEPF combines both preventive and remedial measures for investor protection by uniting the educational aspect with unclaimed asset reclaim mechanism. The establishment of a central authority to oversee the entire process is one of the major contributions of the act, putting a check on the possibility of companies misusing investor assets. Online filling of forms ensures accessibility and transparency of the process for the common investor. Monitoring the progress of application greatly reduces the uncertainties accompanying manual procedures.

In addition, compliance requirements for companies to publish details of unclaimed assets on official websites and disclosures has enhanced transparency and adherence to corporate governance. Nonetheless, multiple inadequacies persist. Lack of awareness regarding the IEPF authority, prolonged documentation, minor discrepancies delaying reclaim process, are a few of the major drawbacks of the IEPF legislative framework. Multi state variations in documentation and minor discrepancies in name etc require judicial intervention in the form of affidavits creating hurdles for the claimants. The various authorities involved lack coordination leading to duplication and delays for the applicants.

Lastly, there is insufficient research data available to conclude on the effectiveness of the investor education programmes run by the authority. Objective assessment is needed to evaluate the impact of the programmes on investor behaviour. This will provide the policy makers with useful data helpful in allocating the resources most appropriately.

Challenges in the IEPF Framework:

There are various challenges in practical implementation of IEPF, some of which are discussed below-

1) Limited Investor Awareness:

One of the major challenges faced in India with respect to IEPF is lack of investor awareness. Although, investors today are not totally clueless about financial matters, there knowledge is incorrect or limited. Moreover, frequent changes in statutes and compliances make it difficult for the common investors to keep track. Again, India is a highly diversified country and people in rural areas may have limited knowledge with respect to the existence and working of bodies like IEPF. There is also some level of carelessness or recklessness on the part of the investors wherein they fail to update their KYC, change of address, death and succession details etc. This creates a problem for the companies as they are unable to trace the investors for information dissemination.

2) Procedural Complexities:

The refund process is rather lengthy and complicated requiring multiple documentary compliances. While such requirements are aimed to prevent fraudulent claims, they often end up complicating the process for genuine claimants. Minor mismatches like difference in signature, name spellings, address or disparities between company records and government documents like Aadhar card or Pan delay the reclaim process endlessly frustrating the investors. These complexities are compounded in case of investors who are senior or residing abroad.

Indian mentality of not making a will and providing succession details to legal successors poses substantial difficulties for the legal heirs while claiming financial assets belonging to deceased shareholders. There are many instances where the nomination is not registered or updated requiring the legal heir to obtain certificates to prove their case, deterring families from following up on their legitimate claims. All in all, the paperwork is cumbersome and deters claimants from proceeding further.

3) Administrative Delays

The involvement of multiple authorities including the companies, RTA's, depositories, company registrars and IEPF and their lack of coordination leads to administrative delays. Interruptions at any stage of refund process can prolong the processing period indefinitely. Add to this the unwillingness of any authority to take the responsibility completely on their shoulders. The introduction of online mechanism has improved the efficiency to some extent and improved the coordination among different agencies, but a lot of efforts are still required to reduce the delays on the part of the administration.

4) Internet security issues:

Increasing dependence on internet portals for processing claims and managing investor personal information necessitates protection of data from cyber frauds. Sensitive investor information relating to their personal and financial information must be protected by putting in place adequate cybersecurity measures. Additional investment and

maintenance in secure digital security measures are necessary to secure public confidence. Apart from the security concerns in a developing country like India, people residing in rural and semi-rural areas may not be digitally literate enough to understand and operate the mechanism in online mode. Partial knowledge with respect to internet security and fear of financial fraud makes the investors vary of filling forms and following up the refund procedure online.

5) Frequent KYC updates:

The investors are required to update their KYC details with the various authorities again and again. Failure to do so leads to data mismatch, delaying the procedure. There are frequent changes in address in case of people with transferable jobs posing difficulties. There are changes in surname with respect to married women that again requires clarifications. Add to this need to change the passwords and login details periodically poses difficulties in follow up. The transactions are blocked, requiring additional paper work on the part of the investors. Thus frequent KYC and login details update pose challenges in following up the same for the investors.

Major achievements of IEPF so far:

Before moving on to recommendations it would be useful to take a look at some of the major accomplishments of IEPF so far-

1) Refunds processed:

As per records more than 35,000 claims have been taken up by the IEPF authority after the introduction of its integrated digital portal. Artificial intelligence has helped in reforming the system significantly and close to 9,500 applications are approved every month. Unclaimed shares and crores of money by way of unclaimed dividends has been transferred to the rightful owners.

2) Mobilizing dormant wealth:

All the unclaimed wealth lying with IEPF is dormant in nature as it cannot be used by the owners, company or the government. Influx of this dormant income in the society through rightful hands will ensure our economic progress. A developing nation like India cannot afford to have crores of rupees lying dormant, where the demands are vast and varied.

3) Significant fund recoveries:

One of the most significant actions taken by the IEPF is the return of funds by Peerless General Finance and Investment Company to the investors almost to the tune of Rs. 1514 crores benefitting more than one crore small investors, who had been waiting for more than 15 years.

4) Financial Literacy Campaigns:

IEPF has launched various awareness initiatives like 'Niveshak Didi, Niveshak Panchayat, Niveshak Shivir' etc. Through these initiatives IEPF has managed to reach millions of people across the length and breadth of India. The main aim of these awareness campaigns is to enable the citizens to make correct and educated financial choices.

5) Digitalization of reclaim process:

There has been digitalization of major processes required to claim the assets. Factors like status tracking have been introduced along with helpline numbers to help the applicants. This has also reduced the dependence on middlemen for the common investors who were duped by fraudsters.

Recommendations:

A few recommendations for mitigating the challenges faced by investors are given below

1) Better reinforcement of investor awareness programmes:

Investor awareness programmes should be expanded through collaborations with other bodies like colleges, schools, banks and other stakeholders. Such awareness initiatives should mainly be targeted at disseminating the following information:

- Need for regular follow up with respect to investments
- KYC Updating from time to time
- Nominee registration
- Risk management and diversification
- Knowledge of various authorities

2) Simplified Documentation:

One of the main grievances voiced by claimants is inability to comply with detailed and complicated paperwork. Multiple forms create confusion and delays for the applicants. The reclaim process should provide for simple and unified documentation acceptable to the different authorities like the bank, RTA, company etc., reducing the burden of the claimant. Digital verifications using government databases, can greatly reduce the leg work of the applicants.

3) Coordination Among Stakeholders:

There are various stakeholders involved in working of the IEPF authority. Better coordination between the stakeholders related with the IEPF process would greatly improve the administrative efficiency. A united digital portal that speeds up and simplifies the entire process from the point of view of the applicant would be ideal to reduce the claim processing time.

4) AI Based Investor Assistance bots:

In a world of emerging virtual reality, chatbots and other virtual assistants can be used to assist investors in understanding the IEPF interface and assisting the claimants in the reclaim process. Such systems can lead to saving of time and provide answers to frequently asked questions. User friendly digital interfaces are the need of the hour. Various government organisations like the railways, banks and others have successfully digitalised their services keeping up with the current trends. Adoption of similar technology can greatly aid and accelerate the claim procedures under IEPF.

5) Strong Corporate Governance

Adherence to strong corporate governance practices by companies will ensure that shares and dividends do not remain unclaimed and are passed on to the rightful owners. Certain proactive measures can be taken by the companies to minimize the transfer of unclaimed assets as mentioned below:

- Regular communications with shareholders is the key to gaining their confidence and building familiarity.
- Periodic updating of shareholders information ensures records are up to date making it easier to identify the claimant.
- Increased use of digital communication methods like emails and WhatsApp ensures timely communication.
- Ensuring Dematerialization of all shares and payment of dividend in digital mode will lead to better control and supervision with respect to shares and dividends.

6) Periodic Assessment

Regular assessment is necessary to evaluate the productivity of various initiatives through independent research work. Objective assessments will help in measuring the level of investor awareness, financial literacy, rate of claims recovery etc., and facilitate necessary improvements. Periodic review meetings with the stakeholders will go a long way in deciding the future course of action to be taken. The entire onus for the same cannot fall on the government authorities only, comprehensive mechanisms involving stakeholders from different areas should be formed to suggest practical working solutions. Academicians, industry based experts, intellectuals, and other prominent people can be a part of such committees.

Conclusion

The investor education and protection fund (IEPF) is a social security legislation designed to safeguard the investor interests in India. The mechanism is comprehensive and well-structured to ensure that unclaimed wealth of the common investors is not lost or misused. The IEPF serves as a central government backed authority designed to act as a custodian of unclaimed financial assets. At present the claim process is rather lengthy and tedious requiring documentation and

multiple compliances. However, efforts are being made for simplification of the process by introducing digitalization and investor education. In conclusion it can be said that IEPF is one of India's most significant frameworks for investor protection and is likely to give more productive results in the times to come.

As India's capital markets continue to expand and retail investor participation increases, the importance of the IEPF is likely to grow further. Strengthening this institution through technological innovation, improved governance, and evidence-based policymaking will contribute not only to investor protection but also to the long-term credibility, transparency, and stability of India's corporate and financial sectors.

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