

Role of Finfluencers in Democratising Investments - A Study Among Retail Investors of Indian Market

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Abstract:

The social media landscape has been significantly changed by social media influencer marketing groups, who use their knowledge and enthusiasm to interact with the target audience. These powerful individuals, who range from cryptocurrency specialists to stock market gurus, have the skills, knowledge, and expertise to steer Social Media users into profitable investors. But in today's situation these finfluencers also harm to the stock market and to investors. Social media users who actively participate in investing conversations on social media platforms will also be referred to as retail investors for the sake of this study. Social media user's year of experience and influencer credibility are two important factors that the study intends too. This study identifies that the finfluencers have a major role on the investment choice making of retail investors.

Keywords — **Finfluencers, social media, retail investors, GenZ.**

I. INTRODUCTION

The emergence of social media seems to have democratized business communication. Individuals and communities who work in marketing and public relations have taken control through the creation, sharing, and utilization of blogs, tweets, Facebook posts, videos, images, and other content (Kietzmann et al., 2011). According to a report released by the Securities and Exchange Commission, companies are permitted to use social media platforms like Facebook and Twitter to share important information in accordance with Regulation Fair Disclosure (Regulation FD), provided that investors are informed of the social media platforms that will be used for this purpose (Washington, 2013).

Social media platforms have taken the place of town squares in recent years, and financial influencers, or "finfluencers", have become the modern-day messengers of financial advice. From budgeting and saving to investing and retirement planning, these digital experts are revolutionizing

how people around the world handle the complicated realm of personal finance with just a click, tap, or swipe. This change is more than just a technical achievement; it indicates a profound cultural shift in the way that millions of people interact with financial advice and information, particularly younger generations (Espeute & Preece, 2024).

The market discovered that individual investors could pool their thoughts and act as a group by sharing information on social media channels, which had a significant impact on the market (Kim et al., 2023). The way financial goods are advertised and delivered is evolving due to the quick rise in digitization and social media use. Online domestic and international financial services and product offers give businesses new ways to connect with prospective customers and give investors access to financial goods.

Increased misbehavior, such as aggressive online advertising, product mislabeling, and deceptive disclosure via social media, has been noted by

several IOSCO members. This might thus be contributing to the increase in some share prices and possibly encouraging “pump and dump” behavior by offering avenues for encouraging risky behavior. Additionally, certain IOSCO members noticed a rise in scams and unregulated financial services (IOSCO, 2022).

A new bridge between consumers and financial institutions is represented by finfluencers. They offer advice, advertise financial goods, give basic investing information, and occasionally even advocate investments. Although it is sometimes unclear if influencers are permitted to engage in regulated activities, they have emerged as a crucial resource for young investors, especially those in Generation Z and for millennials.

It is well acknowledged that social media is expanding and permeating every aspect of everyday life, and social media analytics has emerged as a vital field of research. Consumers now find it easier to depend on peer opinions rather than expert advice when making decisions because to the rise of social media. At the same time, social media platforms have significantly increased in popularity and usage. Although they are frequently utilized to share ideas and information, their existence has been misused to spread false information and rumors that have an impact on stock market prices. News consumers increasingly utilize the platforms to obtain updates, keep an eye on comments, and obtain professional opinions about events in order to comprehend socioeconomic issues (Kim et al., 2023).

Market transparency is significantly improved by the growth of financial market discourse on these platforms. However, it is hard to deny the fact that social media has also been a well-known tool for disseminating misleading information and influencing behavior of people. To combat these kinds of market manipulation and the spread of misleading information, the Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations 2003 (PFUTP Regulations) saw some modifications in January 2022. After this change, in March 2022, SEBI conducted search and seizure operations against organizations allegedly operating nine Telegram groups with more than 5 million members, to whom they were providing guidance on

certain listed scrips. According to SEBI, these channels produced an artificial volume and price increase since they convinced investors to sell the scrips stated above (SEBI Report, 2022).

The most significant change to the PFU Regulations brought about by the 2022 amendment is the expansion of the definition of what is considered manipulative, misleading, or unfair trade activity. The relevant regulation in this case is rule 4(2), which covers securities dealing activities deemed to be unfair, fraudulent, or manipulative trading methods. The 2018 Amendment set a standard for “disseminating information or advice through any media, whether physical or digital, which the disseminator knows to be false or misleading and which is designed or likely to influence the decision of investors dealing in securities”, as defined by Regulation 4(2)(k).

The 2022 Amendment, however, changed the definition of the same regulation to include 'disseminating information or advice through any media, whether physical or digital, which the disseminator knows to be false or misleading in a reckless or careless manner and which is designed to, or likely to influence the decision of investors dealing in securities.' Prior to this change, SEBI had to prove that the individual distributing the information or advice was aware that it was false and misleading. The Apex Court, however, decided in seminal cases like Securities and Exchange Board of India v. Shri Kanaiyalal Baldevbhai Patel and Others that “mens rea is not an indispensable requirement and the correct test is one of preponderance of probabilities” in order to appeal to the strictness of Regulations 3 and 4 of the 2003 Regulations.

The Securities Appellate Tribunal (SAT) decided in *S. Gopalakrishnan v. Sebi* that it was wrong to contend that recklessness should be regarded as a component of 'mens rea' and that the term should be defined broadly. After the 2022 modification, the regulation basically says that if an act is done carelessly or recklessly without the “knowledge” that the content is false or misleading, it is deemed to be a manipulative, fraudulent, or unfair trade conduct. The authors of this essay have attempted to investigate the recklessness standard that was applied to social media market manipulation by

SEBI with the 2022 amendment (SEBI Report 12 Jan 2022).

The purpose of this study is to understand how influencers affecting the investment choice of retail investors in India. And the main research objectives of the study are:

- 1) To understand the impact of influencers in India financial market
- 2) To understand the key characteristics of influencers in Indian financial market
- 3) To analyse the reason for individuals attracting to follow influencers

Drawing from the theory of Venkatesh et al. (2003) Unified Theory of Acceptance and Use of Technology (UTAUT), we taken effort expectancy and performance expectancy in the context of influence of influencers, age and experience are considered as the moderator to identify the intention to use influencers recommendation for investment choice.

II. LITERATURE REVIEW AND HYPOTHESIS

Zhang et al., (2023) present evidence that a social media influencer typically has a large following of devoted followers, he initially signals his admirers with a random order in the market before engaging in predatory trading in the second session. The market liquidity improves as the quantity and degree of fan loyalty rise, but the influencer intensifies predatory trading, which negatively impacts price informativeness.

Ruohan Li and Ayoung Suh (2015) mentioned there are not many qualified gatekeepers to keep an eye on information on social media networks. For today's information consumers, knowing how to assess the reliability of content on social media platforms has become crucial. Our knowledge of the elements influencing online information evaluation is limited because, despite its significance, little study has experimentally investigated what factors impact the trustworthiness of information on social media platforms.

Shweta Mayor Sabharwal and Niyati Aggrawal (2023) also investigated and suggest that stock market is popular, and many individuals worldwide are investing in it in hopes of making a sizable

income. Nonetheless, the information disseminated via social media and online news has a significant impact on investor activity, which in turn influences the stock market as a whole. Numerous studies are being conducted by a large number of academics to investigate the impact of information on investor behaviour..

Symbiosis and Gandhi (2024) study highlights how important influencers are in shaping consumer's investing decisions. Therefore, the study demonstrates the need of explicit financial literacy by offering safe, well-balanced advice that influences consumer financial behaviour. The influencers have an impact on the investments of their audience because they are sufficiently financially literate and plan to support the finest financial habits. The study also emphasises how important influencer recommendation credibility is in mediating the relationship between influencer traits and customer behaviour.

According to Hayes & Ben-Shmuel (2024), normalising financial services and investing as commonplace concerns, influencers not only make financial themes more approachable but also hasten the financialization of daily life. Understanding the intricate mechanics of influencer effect is essential for navigating the changing environment of personal finance and financial education in the digital age, as more people look to social media for financial advice. Specifically, the researcher pinpoints four unique ways that influencers modify financial literacy and involvement: (1) digital storytelling, which allows them to share relatable narratives, success stories, and personal anecdotes; (2) the strategic use of syntax and symbols, which demystifies complex financial terms and concepts through the use of hashtags, emojis, and internet slang; and (3) participatory engagement, which promotes discussion and dialogue.

Olajide et al., (2024) used a mix of the 2021 National Financial Capability Study (NFCS) State-by-State survey and Investor survey to investigate the association between financial contentment and the usage of social media for investment advice across generations. The hypothesis that financial contentment varies between generations, accessing social media for investment advice is associated to financial satisfaction, and this connection changes

among generations are supported by the combined descriptive and regression analyses. According to this survey, baby boomers are more financially happy than millennials and Gen Xers. Similarly, the descriptive data show that baby boomers are more inclined to utilise non-social media sources for information, whilst millennials are the largest demographic that depends on social media. This supports earlier research that found younger generations are more likely to utilise social media to make financial decisions (Reiter et al., 2023).

Furthermore, this study supports earlier research by Reiter et al. (2023), which found that people who rely on social media for investing advice often had smaller investment portfolios and less objective investment knowledge than people who do not utilise social media. Although it is lacking, the research that is currently available emphasises the part social media plays in investment choice. The research's methodology has several limitations, including as its emphasis on quantitative approaches and Twitter (now X) data. The majority of current (quantitative) research does not differentiate between professional and retail investors because of the data aggregation and relative anonymity of Twitter users.

The purpose of this study is to analyse the current regulations by Indian regulatory bodies and to determine the impact of influences on the Indian financial sector. This aligned with the UTAUT model's construct, which includes the demographic variables and performance and effort expectancies (Venkatesh et al. 2003). Performance expectation was defined in the UTAUT as the extent to which a person believes that utilising the system will enable him or her to achieve improvements in work performance. Here it is considering as the recommendation from finfluencers will enable the investors to achieve improvement in his investment choices. Effort expectancy is an expression used to describe how simple the system was to use. By analysing effort expectancy, it is very evident to understand the ease of use by the investors in knowledge acquisition and helping in developing investment choices. Thus, we outline the following hypotheses:

H1: There is an association between age and kind of social media platform for finding information about investments.

H2: There is difference between year of experience and influence of finfluencers.

III. DATA

The data are collected from individual investors who are demat account holders. To determine the impact of finfluencers on investment decisions, it is more effective to conduct an online survey that identifies individuals actively participating in influencer discussions. We conducted the survey by sending Google forms. And send to 680 individuals, after removing missing data 400 data are considered for analysis.

Majority of the respondents are Male and they are belonging to Generation Z. Most of them have a stock market experience of less than three years. Through the analysis it can be identified that the GenZ are preferring social media and internet as an important source for accessing security market information and they least referring to stock brokers. Among this Twitter, WhatsApp, Facebook and YouTube are the preferred platforms.

Recommending stocks or investment strategies are the interested topic for the respondents, breaking down complex financial concepts, promoting financial literacy and education, analyzing real-time financial data and trends, sharing personal financial experiences and lessons, discussing personal finance management (budgeting, saving, debt management), exploring economic news and its impact on markets and reviewing financial tools and apps are the other related topics they are searching for. The social media users who are engaged in stock market had witnessed both gain and loss by following the recommendations of finfluencers.

IV. RESULT

TABLE 1
Pearson Chi-Square Tests

Age		
Source of Information	Chi-square	14.271
	df	12
	Sig.	.284

Table 1 showing the Pearson chi square test

It measuring the association between age of the respondents and source of information they are preferred. The p value here is 0.284 which above the significant value. So, it can be concluded that there

is an association between age and the sources selected for seeking information.

TABLE 2
ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	7.089	1	7.089	33.412	.000
Residual	84.441	398	.212		
Total	91.530	399			

Table 2: Showing the Anova test of variables

Here showing the values of one-way Anova test, which analyzing the year of experience of the investors and influence of finfluencers. The p value here is significant. So, its accept that there is difference between year of experience and influence of finfluencers on investors investment choice.

V. CONCLUSION

The financial advising sector is starting to be disrupted by influencers. Access to a personal financial adviser was generally viewed as having minimal value by Gen-Z investors in this survey. Cost was one of the primary obstacles they mentioned. Financial advisors should have a longer-term perspective on the worth of their clientele; even if many Gen-Z investors aren't profitable clients right now, they will probably become wealthier in the future. It is uncertain if they will eventually look for an adviser, particularly if they grow more comfortable handling their own money, which will probably be made easier by upcoming technology advancements. Professional advisors are distinguished primarily by the fact that their advice may be customised and is accompanied by guarantees of quality, professional competence, and duty of care. If advisers want to remain competitive in a world that is becoming more digitally connected, they need to highlight these components in their value offer.

Improve the controls on social media platforms. Social media companies must to be more accountable for making sure content producers put advertisements in posts in an obvious manner. Certain platforms, like YouTube, include user interfaces that ask content producers to reveal advertisements before to publishing, after which the disclosures are automatically made. To ensure that postings contain sufficient disclaimers, similar

interfaces might be used on other platforms and paired with human moderators, as well as enhanced algorithmic model training and model transparency for AI-powered content moderation.

Thus, the study proven that the finfluencers have an effective role in democratizing the stock market information. In early period, the information is belonging to certain interested groups and the growth of financial literacy is very less. It is very evident that after the emergence of finfluencers, the security market information are easily available to the common public and those interested parties can easily understand the technical process effortlessly. At the same time, it is evident that these finfluencers have the capacity to easily capture the interest of investors through story telling or giving recommendations from their own real life. This motivates the inexperienced investors to blindly follow the finfluencers opinion. This causing stock market manipulation and violation of investors interest. So, the regulators have to take over the finfluencer's behavior much more cautious. And also, the investors especially the upcoming GenZ investors take care about the false spreading of information.

VI. RECOMMENDATION

Regulators should cooperate to design and implement a more universal definition of an investment recommendation. In addition to promoting products, we observed some finfluencers recommending that their audiences buy, sell, or hold financial instruments. To overcome the challenge influencer activities, pose to the regulatory framework, the Securities and Exchange Board of India (SEBI) could design a common definition of an investment recommendation.

Finfluencers often demonstrated efforts to help educate their audience, as shown through their highly curated content. The majority of finfluencers appear genuine in their educational efforts but are likely unaware that some of their activities are regulated. Regulators should, therefore, engage directly in constructive dialogue with finfluencers and explain which of their activities are regulated. This can be done through arranging meet ups of finfluencers and giving them badge or certificates. Such engagement would serve to emphasize the

importance of making clear and relevant disclosures, including disclosures of any conflicts of interest that arise when they are marketing products or providing information.

Finfluencers should also be required to disclose their regulatory status that is, whether they are a regulated adviser, a tied agent, a broker/dealer, or none of the above even when partnering with regulated firms. SEBI should also mandate that firms keep records on their use of finfluencers in markets where this is not the case. Social media sites must to be more accountable for making sure content producers put advertisements in posts in an obvious manner. Certain platforms, like YouTube, include user interfaces that ask content producers to reveal advertisements before to publishing, after which the disclosures are automatically made. For content moderation that employs artificial intelligence (AI), similar interfaces might be used on different platforms and integrated with human moderators, as well as enhanced algorithmic model training and model transparency to ensure that postings have sufficient disclosures.

Giving influencers compliance training. Examining influencer content both before and just after it is published to make sure it still complies with the regulations in that area. The best course of action would be to make sure that the target market's highest regulatory standards are met by such content.

By improving financial literacy, Gen-Z investors may be able to recognise when online content is inappropriate or erroneous. Financial education providers should make it clear that when acting on information from unregulated people or businesses, retail investors will not have access to consumer protections. They should also provide databases that enable users to verify whether a financial advice provider is registered with regulatory authorities. Enhance GenZer's capacity for important information evaluation. When online investing information is truthful, upholds high standards, and delivers interesting and educational insights, it may be beneficial. Therefore, by asking principle-based questions, consumers should be given the ability to assess information they receive online.

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