

Original Research Article

The Rise of Finfluencers and Their Impact on Individual Investment Decisions in India: A Regulatory Perspective with Reference to SEBI Guidelines

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Abstract:

The rapid rise of financial influencers popularly known as finfluencers has been one of the most visible developments in India's financial ecosystem in the last decade. Social media platforms such as YouTube, Instagram, Telegram, Reddit, Facebook and X (formally known Twitter) have provided ordinary individuals with an opportunity to present investment-related content to mass audiences. As India has witnessed full exponential growth and flowering in retail participation in the stock market and mutual funds. Finfluencers have emerged as a crucial bridge between formal financial institutions and young digitally-savvy investors. By providing simplified complex financial decisions they contribute to financial inclusion and digital literacy where formal financial education remains limited. However, their growing influence has also raised significant regulatory, ethical, and economic concerns. The absence of mandatory registration, instances of biased or sponsored recommendations, and the amplification of behavioral biases have created new challenges for investor protection.

The Securities and Exchange Board of India (SEBI) has in response proposed and implemented multiple guidelines since 2023 to address this phenomenon. These include restrictions on intermediaries' partnerships with

finfluencers, mandatory disclosures for paid promotions, and warnings against unregistered advisory services. This research is based exclusively on secondary data that critically examines the rise of finfluencers in India and their implications for individual investment decision-making & SEBI's regulatory stance. From academic literature, regulatory reports, media coverage, and expert commentaries the paper provides a holistic understanding of the dual role finfluencers play in democratizing finance and exposing retail investors to new risks. It also situates SEBI's interventions in a comparative global context by drawing parallels with measures adopted by the U.S. Securities and Exchange Commission (SEC) and the UK's Financial Conduct Authority (FCA). The findings highlight a regulatory dilemma: how to strike a balance between protecting investors from misleading advice while not stifling the positive role of finfluencers in enhancing financial awareness. The study concludes with policy recommendations, enhanced investor education, platform-level accountability, and adaptive regulatory mechanisms to ensure sustainable financial innovation.

Keywords: Finfluencers, SEBI, Retail Investors, Behavioral Finance, Social Media, Regulation

1. Introduction:

The Indian financial landscape has undergone remarkable transformations in the last decade. A combination of technological innovation, regulatory reforms, and socio-economic shifts has expanded access to financial markets for ordinary individuals. The democratization of finance, particularly after the COVID-19 pandemic is witnessed in the record number of new demat accounts, the rise of discount brokerage firms like Zerodha and Upstox, and the growing popularity of digital investment platforms such as Paytm Money, 5paisa, Motilal Oswal and Groww. According to data released by the National Stock Exchange (NSE), as of the end of the 2024-2025 the total number of demat accounts in India has reached a record 19.24 crore. This unprecedented influx of retail investors reflects both the aspiration for wealth creation and the empowerment brought about by digital finance.

Amid this transformation a new category of actors—financial influencers or finfluencers—has emerged as a powerful force shaping investor perceptions and financial behaviors. Finfluencers are individuals often without formal financial qualifications who use social media platforms to share investment advice, personal finance strategies, and market commentary. Their content ranges from short, visually engaging videos on platforms like Instagram Reels to in-depth YouTube tutorials that simplify technical concepts such as stock valuation or mutual fund selection. Finfluencers have become a primary source of information—sometimes even more trusted than traditional financial advisors for many first-time investors.

The rapid growing influence of finfluencers is not unique to India. Globally, platforms such as Robinhood in the United States or Trading212 in the United Kingdom have encouraged retail investors to engage with capital markets often with guidance from online influencers. However, the Indian context is distinctive due to its relatively low levels of formal financial literacy. A 2019 survey by the National Centre for Financial Education revealed that only 27% of Indian adults were financially literate compared to the global average of 33% (NCFE-FLIS 2019). In this scenario, finfluencers play a dual role: they fill a significant gap in financial education while simultaneously raising concerns about the reliability and accuracy of their content.

Behavioral finance theory provides useful insights into why finfluencers have become so impactful. Investors particularly inexperienced ones often rely on heuristics and are susceptible to cognitive biases such as overconfidence, anchoring, and herding. Finfluencers, through persuasive communication styles and social proof (likes, shares, subscriber counts), can unintentionally amplify these biases. For example, when a popular finfluencer

recommends a specific stock, thousands of followers may replicate the decision without conducting independent research, leading to speculative bubbles.

Recognizing these risks the Securities and Exchange Board of India (SEBI) has taken proactive corrective measures to regulate influencers. Since 2023, SEBI has issued consultation papers and circulars warning intermediaries against partnering with unregistered influencers and mandating disclosure requirements for sponsored content. These measures aim to curb misinformation and safeguard retail investors from undue risks. Nevertheless, the regulatory debate is far from settled. Excessive restrictions could stifle genuine financial education and limit the reach of useful content while leniency could expose investors to greater harm.

SEBI's guidelines reflect broader global trends in regulating digital financial advice as regulators worldwide grapple with the disruptive influence of social media on financial markets. However, the Indian context is unique because of the country's vast population of first-time investors, its linguistic diversity, and the rapid adoption of fintech platforms.

This paper seeks to address some research questions such as (i) How have influencers influenced the investment behavior of individual investors in India? (ii) What risks and opportunities do they present in the context of behavioral finance? (iii) How effective are SEBI's current guidelines in addressing these challenges? To answer these questions, the study relies exclusively on secondary data sources, including SEBI guidelines, industry reports, academic studies, and media coverage. By doing so the research provides understanding of the evolving influencer phenomenon and situates SEBI's responses within a broader regulatory context.

Objectives of the Study:

1. To examine the role of influencers by evaluating the risks and challenges posed by their unregulated activities.
2. To analyze SEBI's regulatory interventions and provide policy recommendations for effective regulatory framework.

Significance of the Study

This research is significant because it addresses a timely and underexplored issue at the intersection of digital finance, behavioral economics, and regulatory governance. By analyzing secondary data the study sheds light on how influencers shape individual investor psychology in India where retail participation in financial markets is at an all-time high. The findings of this study have significant implications for multiple stakeholders. For investors the research serves as a critical tool raising awareness about the risks of following influencers without proper scrutiny. For regulators it provides the evidence needed to design more robust frameworks to protect the public. Academics can use the findings to contribute to the growing literature on digital finance and social media's influence. Finally for influencers themselves, the study highlights the essential need for ethical practices and transparent engagement with their followers.

2. Literature Review

- 2.1 Influencers combine entertainment with education, producing videos, posts, and reels that simplify complex financial jargon. This approach makes finance accessible to younger, tech-savvy audiences. However, the informality of their communication style also introduces risks, as it can blur the lines between genuine financial literacy and speculative investment advice (Srivastava & Banerjee, 2022).

- 2.2 Research by Barber and Odean (2001) shows that retail investors tend to trade excessively, often driven by overconfidence. Finfluencers, by showcasing high-risk strategies or “success stories,” can inadvertently encourage speculative behavior. Similarly, herd behavior—a tendency to mimic the actions of others—becomes pronounced when finfluencers endorse specific stocks, mutual funds, or cryptocurrencies. Studies from India (RBI Bulletin, 2023) confirm that retail investors often follow investment advice on social media without verifying credibility, leading to impulsive decision-making.
- 2.3 India’s financial markets have experienced a surge in retail participation since the COVID-19 pandemic. Between 2020 and 2023, more than 60 million new demat accounts were opened (NSDL & CDSL Reports, 2023). This wave of first-time investors coincided with the exponential growth of social media content on investing. Finfluencers filled a gap by catering to investors who lacked formal access to financial advisors. They provided localized, relatable, and often free advice, enabling financial inclusion in semi-urban and rural regions. For instance, regional-language finfluencers on YouTube and Instagram have attracted millions of followers by breaking down investment strategies in vernacular terms. SEBI’s Investor Survey (2023) reveals that while awareness about investments has increased, financial literacy remains relatively low. This discrepancy creates an environment where investors are exposed to advice but lack the tools to critically evaluate its credibility.
- 2.4 The Securities and Exchange Board of India (SEBI) has responded with a series of interventions to regulate financial promotions. In 2023, SEBI issued consultation papers outlining its concerns about finfluencers. Key highlights of SEBI’s approach include: Mandatory disclosures of paid partnerships, prohibiting unregistered finfluencers from entering revenue-sharing arrangements with regulated intermediaries, encouraging investors to verify registration status of advisors through SEBI’s public databases and Collaboration with platforms to curb misleading financial advertisements. SEBI Annual Report-2023 suggests that these measures are part of SEBI’s broader vision of promoting investor protection while fostering financial inclusion.
- 2.5 **Research Gap:** Although there is emerging literature on the role of social media in financial decision-making, research specifically focusing on finfluencers in India remains limited. There is limited exploration of how SEBI’s guidelines compare with global regulatory practices and whether they adequately address India’s unique socio-economic context. This gap provides the foundation for the present study to evaluate the rise of finfluencers, their impact on individual investment decisions, and SEBI’s regulatory interventions.

3. Research Methodology

- 3.1. **Research Design:** This study adopts a **qualitative and descriptive research design** based exclusively on **secondary data sources**. The choice of methodology is driven by the nature of the research problem, which examines the impact of finfluencers on individual investment decisions in India and evaluates SEBI’s regulatory response.
- 3.2. **Sources of Data:** The study relies on multiple secondary data sources to ensure reliability and comprehensiveness. It includes academic literature, regulatory documents, global regulatory reports, institutional databases and media and industry reports.

4. **Data Analysis and Findings:** The impact of influencers on individual investors in India is best understood by examining secondary data drawn from **SEBI reports, stock market participation trends, consultancy studies, and media coverage**. This analysis reveals both the **opportunities** influencers create for financial inclusion and the **risks** they pose to market stability. By organizing findings thematically, we can better evaluate the effectiveness of SEBI's guidelines and identify areas for future regulatory focus.

4.1. **Growth of Retail Participation and the Role of Finfluencers:** According to data from NSDL and CDSL, the number of demat accounts in India increased from around 40 million in March 2020 to over 145 million by March 2024. Reports from NSE and BSE suggest that more than 30% of daily equity market volumes are now driven by retail investors, up from 18% in 2019. Finfluencers have been instrumental in this rise, a) platforms like YouTube Finance Channels gained millions of followers during the pandemic, b) short-form video platforms (Instagram Reels, YouTube Shorts) emerged as powerful tools for explaining IPOs, mutual funds, and trading strategies to first-time investors, c) regional-language finfluencers expanded reach into Tier-2 and Tier-3 cities, where traditional financial literacy programs had limited penetration.

Finding 1: Finfluencers have acted as catalysts for democratizing access to capital markets, contributing to unprecedented growth in retail investor numbers.

4.2. **Misinformation, Herd Behavior, and Investment Risks:** SEBI in its Investor Survey (2022) reported that nearly 42% of first-time investors relied on online sources, including social media, for financial advice, with only 9% consulting registered advisors. Studies by EY (2023) highlighted that over 70% of investors admitted to making impulsive decisions based on trending recommendations on digital platforms. Notable cases of misinformation include, promotion of unregulated products such as cryptocurrency exchanges before government intervention and paid partnerships disguised as unbiased recommendations.

Finding 2: Retail investors show high vulnerability to herd behavior and misleading claims, magnifying systemic risks when large groups follow the same advice.

4.3. **SEBI's Regulatory Framework: Strengths and Gaps:** SEBI mandates that any collaboration with intermediaries must include clear disclosures to prevent misrepresentation. Revenue-sharing between influencers and brokers is prohibited, reducing incentives for conflict of interest. SEBI has strengthened outreach through campaigns like "*SEBI Investor Charter*" and social media drives. On the other hand SEBI lacks jurisdiction over global social media platforms, making compliance monitoring difficult, a large number of finfluencers remain outside the formal financial advisory ecosystem, and content that "educates" but implicitly recommends investments often falls outside strict advisory definitions.

Finding 3: While SEBI's guidelines are progressive, their **effectiveness is hindered by enforcement and definitional ambiguities**.

4.4. **Positive Contributions of Finfluencers:** Despite risks, influencers also create significant **social and economic value** like a) **financial inclusion**-bridging the knowledge gap for first-time investors in smaller towns. b) **simplified learning**-offering free, accessible content in multiple Indian languages. c) **youth engagement**-encouraging younger demographics (18–30) to consider investments early. d) **democratization of knowledge**-breaking the monopoly of expensive financial advisory services.

Finding 4: Finfluencers contribute positively by **democratizing financial knowledge and accelerating market participation**, particularly among youth and underserved communities.

5. Conclusion and Policy Recommendations

5.1. Conclusion: The phenomenon of finfluencers represents one of the most significant shifts in India's financial landscape in the last decade. By leveraging the power of social media, finfluencers have redefined how financial information is created, consumed, and acted upon. Their rise coincides with the explosive growth of retail participation in capital markets, particularly during and after the COVID-19 pandemic. The study concludes that regulation, investor education, and platform accountability are critical pillars for ensuring that the benefits of finfluencer-driven financial inclusion outweigh the risks of misinformation.

5.2. Policy Recommendations: Based on the findings, the following policy directions are recommended:

- 1) SEBI should establish a Finfluencer Registry, requiring those who provide investment-related content to disclose affiliations, sponsorships, and revenue sources. Penalties for misleading promotions should be graded based on severity, ranging from monetary fines to content takedowns and platform bans. Guidelines must clarify the distinction between educational content and financial advice, ensuring finfluencers know their boundaries.
- 2) SEBI should work with YouTube, Instagram, and Twitter (X) to introduce compliance filters, requiring finfluencers to add disclaimers before publishing investment-related videos. Algorithms should be adjusted to flag or de-prioritize content that lacks proper disclosures. Platforms can be mandated to report paid partnerships in financial products to regulators.
- 3) Regulatory focus should not only be on policing finfluencers but also on empowering investors. SEBI, along with academic institutions and NGOs, should launch digital financial literacy programs targeting youth and first-time investors. Gamified learning apps and interactive simulations can help investors understand risks before committing real money.
- 4) The regulatory framework should not be static. SEBI must adopt a dynamic review mechanism, updating rules every 2–3 years to reflect changes in technology, investor behavior, and financial products. Public consultations with stakeholders—finfluencers, intermediaries, investors—should be institutionalized.

6. Scope for Future Research: This paper is based on secondary data, identifies broad patterns and regulatory implications. Future research may explore through primary surveys of investors to measure the direct causal impact of finfluencer advice on financial outcomes, comparative studies across countries to identify best practices in regulation and platform-level algorithmic analysis to assess how recommendation engines amplify certain types of financial content.

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