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FINFLUENCERS - THE FINANCIAL INFLUENCERS

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Abstract

The present study investigates the budding phenomenon of financial influencers on Indian social media platforms. Social media users who use their professional and educational backgrounds and the platforms' interactive elements to spread financial knowledge to greater audiences are referred to as "influencers." The author posits that the rising number of Indian finfluencers on YouTube and Instagram in recent years offers a window into how social media platforms facilitate the fluidity of financial position and trust concepts. Therefore, finfluencers' demystification of financial language and institutions serves as a lens through which people can comprehend how social media platforms enable a change in the structure of dominant economic ideologies in India.

Keywords- finfluencers, financial position, financial trust, financial institutions, social media platforms.

Introduction

The COVID-19 pandemic has spurred a notable shift in how individuals approach income generation, with many turning to the stock market as a means of financial empowerment. While the global crisis has brought about economic challenges, it has also created unique opportunities for those seeking alternative sources of income.

One significant avenue for income generation has been day trading. The work-from-home arrangements that became widespread during the pandemic have given rise to a surge in retail investors. People with spare time and a desire to supplement their income have entered the stock market arena, leveraging user-friendly trading platforms to make informed investment

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decisions. Many have found success in building diversified portfolios and reaping the rewards of a well-timed stock market entry.

Social media platforms have played a pivotal role in shaping investment decisions during the pandemic. Retail investors now have a virtual space to share tips, discuss market trends, and collectively identify investment opportunities. The collaborative efforts of these online communities have empowered individuals to make informed choices and navigate the complexities of the stock market.

Here, people discover a way to make money by using social media platforms to communicate with others about their opinions and experiences regarding a particular stock or anything generally related to the financial market. These people call themselves as "Finfluencer" or "Financial Influencers".[3]

Who is an influencer? According to Advertising Standards Council of India (ASCI), an Influencer is someone who has access to an audience and the power to affect their audiences' purchasing decisions or opinions about a product, service, brand or experience, because of the influencer's authority, knowledge, position, or relationship with their audience.

According to research published last year, influencers have sway over more than one in every four people in India, with three out of every five consumers motivated to test a product after hearing about it from an influencer.

In other words, influencers are people who have a large number of followers on social media platforms and who can influence the purchasing decisions or opinions of their followers. Influencers promote and advertise the products or services of their clients, who are generally the companies and influence their viewers or followers to pursue and purchase the products and services of the companies they are endorsed with. Influencers promote and advertise the products and services on the social media platforms like Instagram, Facebook, YouTube, etc.

Who is a finfluencer?[4]According to the Securities and Exchange Board of India (SEBI), Financial influencer, commonly called 'finfluencer', is a person who provide information

[3] Parthasarathy, S. (2023, September 5). *Rise of 'finfluencers' sparks debate over influence and accountability*. Frontline. https://frontline.thehindu.com/society/rise-of-finfluencers-sparks-debate-over-influence-and-accountability-personal-finance-sebi-asci/article67273277.ece

[4]*SEBI | Consultation Paper on Association of SEBI Registered Intermediaries/Regulated Entities with Unregistered Entities (including Finfluencers)*. (n.d.). https://www.sebi.gov.in/reports-and-statistics/reports/aug-2023/consultation-paper-on-association-of-sebi-registered-intermediaries-regulated-entities-with-unregistered-entities-including-finfluencers-_75932.html

and/or advice on various financial topics such as investing in securities, personal finance, banking products, insurance, real estate investment, etc. through social/digital media platforms/channels, and have the ability to influence the financial decisions of their followers.

The terms "finance" and "influencer" are combined to form the term "finfluencer." It describes those who use social media to reach their followers with investment advice, financial advice, and other money-related information. Finfluencers are those who utilize their social media network to educate and influence people about investing, budgeting, personal finance, and general financial health. These finfluencers engage with their audience and build relationships by using their knowledge. Usually, they are experts in economics, finance, or related fields. Social media platforms such as blogs, Twitter, Instagram, YouTube, and TikTok are home to finfluencers. Their content might address topics like investment opportunities, financial literacy, saving strategies, and other relevant topics to help their audience make smart financial decisions.[5]

Financial influencers have recently played an important role in spreading financial awareness and literacy, bridging the gap of financial illiteracy, which, according to a study by the National Centre for Financial Education, is shockingly low, with only 27% of the population being financially literate. Finfluencer's use of plain language, intelligible and decipherable by laypeople, has been a hindrance in addressing financial illiteracy. Having said that, enormous dependence and unwavering trust placed in Finfluencer, together with uncontrolled, unrestricted access to such content creators, creates an elixir for quacks to deceive naive and innocent individuals.

Issues and problems arising due to Finfluencers

Unregistered financial influencers may also engage in other unethical behaviour, such as promoting certain financial items without disclosing conflicts of interest. As a result, the integrity of the financial advice ecosystem is compromised and trust is lost between influencers and their audience. The absence of regulatory checks raises the possibility of market manipulation even more since influencers may misuse their position to manipulate stock prices or shifts in markets without enough supervision.

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[5] Pushkarna, A. (2023, October 4). *Does SEBI's regulatory proposal ring a death knell for finfluencers?* Afaqs! https://www.afaqs.com/news/influencer-marketing/does-sebis-regulatory-proposal-ring-a-death-knell-for-finfluencers

In a recent report, the Financial Conduct Authority of the United Kingdom reported that last year saw an increase in the use of bloggers and influencers on social media sites such as Facebook, Instagram, and YouTube to promote financial products, particularly investment products, to younger audiences.

On the other hand, influencers who aren't registered with the relevant financial sector authority may not be sufficiently competent or knowledgeable about the subject. Even worse, as they are not legally obligated and bound by the code of conduct of a financial sector regulator, they are unable to disclose any possible conflicts of interest, such as associations with or ownership interests in the securities, goods, or services they promote.

The finfluencers garnered public attention subsequent to the aforementioned incidents -

However, neither SEBI nor any other global market regulator is unfamiliar with this dilemma. P.R. Sundar, a YouTuber and options trader, was fined Rs 6.5 crore by SEBI in May and banned for a year for breaking investment advice regulations. It was reported that he was using his website to sell a variety of packages for advising services. The money received in fees was transferred into Mansun Consultancy's bank account; the YouTuber held a 50% stake in the business and served as its promoter. After he paid the money, the lawsuit was dismissed, but the ban's restrictions remained in effect.

Gunjan Verma, a self-described financial counsellor, was recently fined Rs 1 lakh and mandated to reimburse her clients for providing unregistered services since 2018, a clear violation of SEBI regulations. Influencers like Verma and Sundar entice investors with promises of big returns, but they operate illegally, leaving their victims with significant financial losses. These instances show the country's worrisome surge in financial fraud, serving as a caution that blindly following influencers can have negative effects.[6]

SEBI, recently cracked down on a scheme involving Bollywood actor Arshad Warsi and his wife. These promoters of Sharpline Broadcast Ltd. and Sadhna Broadcast Ltd. were using a tactic of collaborating with YouTube Creators to distribute deceptive and fraudulent content. This content generates misleading interest in the scrip, causing investors to invest in it, resulting in artificial volume and price rises. Following the

[6] Today, B. (n.d.). *Rise of the Finfluencers*. Businesstoday. https://www.businesstoday.in/interactive/immersive/rise-of-the-finfluencers

price increase, the promoters and profit makers sold their ownership in the company at a premium, resulting in tremendous gains. This mass "dumping" deflates the scrip's price, leaving naive investors who bought at the inflated price during the "pump" phase with massive losses.[7]

The socialite Kim Kardashian was charged by the U.S. Securities and Exchange Commission (US SEC) in October of last year for "unlawfully touting a crypto security" outside of the nation. She paid $1.26 million in fines and penalties in order to resolve the accusations.

Key Benefits of Finfluencers

Finfluencers can provide a lot of benefits, especially in terms of financial education and literacy. Below is a summary of some of their main advantages.[8]

Enhanced Financial Knowledge: Influencers have the power to pique people's curiosity about personal finance, particularly in younger age groups who may not have previously interacted with financial ideas. People can be inspired to make financial goals and take control of their finances by their content.

Making Finance Accessible: Financial influencers frequently convert difficult-to-understand financial concepts and jargon into plain language. They are able to simplify complicated financial services and products so that the general public may use them.

Engaging Format: When delivering financial information, influencers frequently employ interesting and innovative formats including infographics, videos, and social media postings. When compared to more conventional approaches, this can make learning about finance more engaging and dynamic.

Building Community and Trust: When it comes to personal finance, influencers can help foster a sense of community and trust. By connecting with influencers who share their financial objectives and risk tolerance, people might feel more connected to one another.

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[7] Sreedhar, V. (2023, August 27). *Explainer: What SEBI's proposed rules for finfluencers mean for retail investors*. The Economic Times. https://economictimes.indiatimes.com/markets/stocks/news/explainer-what-sebis-proposed-rules-for-finfluencers-mean-for-retail-investors/articleshow/103099392.cms?from=mdr

[8] Mishra, M. (2023, September 7). *ETtech Explainer: Decoding the buzz around Sebi's finfluencer guidelines*. The Economic Times. https://economictimes.indiatimes.com/tech/technology/ettech-explainer-decoding-the-buzz-around-sebis-finfluencer-guidelines/articleshow/103435126.cms?from=mdrhttps://economictimes.indiatimes.com/tech/technology/ettech-explainer-decoding-the-buzz-around-sebis-finfluencer-guidelines/articleshow/103435126.cms?from=mdr

Existing Regulatory Laws in India

Finfluencers are not specifically governed by any laws. However, generally speaking, finfluencers must abide by rules such as SEBI Act, 1992, Section 12-A, and SEBI (Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003, or "PFUTP Regulations." Regulation 4 of the PFUTP Regulations states that any statement made intentionally false or misleading to influence investors' investment decisions will be considered "manipulative fraudulent or an unfair trade practice." Section 12A of the SEBI Act prohibits anyone from directly or indirectly engaging in any act, practice, or course of business that is fraudulent, misleading, or manipulative with regard to transactions on the stock exchange. Additionally, this legislation forbids the negligent or reckless distribution of material or advice that could sway the choice of securities investors.

Finfluencers are not covered under the SEBI (Investment Advisors) Regulations, 2013 ("IA Regulations"), which govern investment advisers ("RIA") in India. According to the aforementioned IA Regulations, an "investment adviser" is someone who gives investment advice to an individual or group of individuals "for consideration." Finfluencers do not fit under the category of "investment advisors" because they often do not charge their followers and make their advice openly available".

In a similar vein, the SEBI (Research Analysts) Regulations, 2014 (the "RA Regulations") control Research Analysts ("RAs") in India. A number of strict compliance requirements, such as requirements for qualifications and certificates and the declaration of conflicts of interest, are mandated for RAs by the aforementioned RA Regulations. Yet, the RA Regulations do not apply to unregistered finfluencers.

Even the SEBI's April 5, 2023 release of the "Advertisement code for Investment Advisers (IA) and Research Analysts (RA)" requires registered IAs and RAs to obtain prior approval from SEBI before distributing any kind of communication or advertising material, including on social media platforms or through any other online medium. The goal of this code is to govern RIAs and RAs exclusively, not finfluencers.

Unlike influencers, RIAs and RAs are professionally qualified to provide financial advice on securities or investment products and must adhere to a number of regulatory requirements. More significantly, any conflict of interest in any financial instrument that falls under the purview of the advice provided by RIAs and RAs must be disclosed. As of March 2023, the SEBI has just 1,328 registered independent appraisers (IAs) in India, of whom 840 had individual licenses and 488 had corporate licenses. Due to a few dishonest agents who abused their licenses, SEBI strengthened the requirements for IA licensure; yet, it has not been able to control the actions of unregistered financial influencers.

To combat such unethical actions, the NSE also now requires brokers to acquire prior approval and provide disclaimers when compensating influencers. Influencers with more than 10 lakh followers are also forbidden from participating in advertisements.

The Advertising Standards Council of India (ASCI), a self-regulatory body, issued guidelines for influencer marketing in 2022. According to the ASCI standards, influencers must disclose any financial or other interests they may have in the items or services they advocate. This disclosure rule was implemented to increase transparency and allow customers to make educated decisions about the reliability of influencer endorsements.

The Consumer Protection Act of 2019 provides a framework for protecting customers' rights and interests by holding influencers accountable for their behaviour and the information they support. By complying with the CPA, influencers are legally expected to offer accurate information, declare any conflicts of interest, and refrain from engaging in unfair commercial practices that may mislead customers.

SEBI's Proposed Framework to Regulate Finfluencers

The ASCI recently revised the Guidelines for Influencer Advertising in Digital Media" in an effort to strengthen the accountability of influencers.[9]

According to the updated Guidelines, before providing advice on investments, influencers in the banking, financial services, and insurance sectors, influencers must be registered with SEBI and meet the required qualifications. It is also required of them to openly disclose their practitioner credentials or recognized expert status. This duty appears anytime they offer guidance, advocate for, or discuss the benefits or drawbacks of the goods or services.

[9] Burugula, P. (2023, October 3). *Sebi's finfluencer rules to hurt foreign brokers | Mint*. Mint. https://www.livemint.com/market/stock-market-news/sebis-finfluencer-rules-to-hurt-foreign-brokers-11696356714483.html

In order to follow ASCI norms and avoid SEBI's scrutiny, finfluencers are increasingly renting SEBI registration numbers from RIAs. On August 25, 2023, SEBI published a consultation document titled 2023 Consultation Paper in an effort to address these malpractices. According to the aforementioned 2023 Consultation Paper:

1. Influencers who are not registered are prohibited from collaborating with regulated entities, registered intermediaries, or their agents or representatives in order to publicize or advertise their goods or services.
2. Influencers who are registered in any capacity with the Association of Mutual Funds in India ("AMFI"), stock exchanges, or SEBI:

    a) must follow the code of conduct outlined in terms of their relevant registration as well as any advertisement guidelines issued by stock exchanges, SEBI, or other regulatory authorities recognized by SEBI,
    b) and provide their registration number, contact number, contact information, investor grievance redressal helpline, and a disclaimer on any posts;
    c) needs to provide the proper disclaimer and disclosure for each post;
    d) shouldn't pay any trailing commissions as referral fees based on the quantity of referrals. Nonetheless, stockbrokers are allowed to take restricted referrals from retail clients and compensate them with referral fees;
    e) Entities that are AMFI, stock exchange, or SEBI registered or regulated are not permitted to disclose private client information with any unregistered entities.

SEBI published a Consultation Paper earlier in 2016 recommended changes to the IA Regulations. The attempt by SEBI to broaden the scope of "investment advice" to encompass all mediums of communication was the most notable aspect of the 2016 Consultation Paper. The study suggested changing the PFUTP Regulations to completely forbid anybody other than an RIA from offering trading tips or stock recommendations to the general public by SMS, email, WhatsApp, etc. This strategy drew harsh criticism and was called "regulatory overreach." After taking the feedback into account, SEBI opted against putting such a strict clause into effect.[10]

Hence, SEBI still needs to do a lot of work to find a balance between allowing free expression and making sure influencers offer reliable and impartial data.

Cross-Border Analysis

Financial regulators from all around the world have been addressing market disruptors known as finfluencers. One of the first nations to outlaw finfluencers using paid material to advertise financial products, including cryptocurrencies, is France. Finfluencers who breach this might face fines of 300,000 euros and a maximum term of two years in prison.

Operating an unregistered financial services firm is against the law in Australia. Penalties range from millions of dollars for a corporation to up to five years in prison for an individual. An objective criterion has been established by the Australian Securities and Investment Commission (ASIC) to ascertain if the advice given by finfluencers qualifies as financial advice. If an influencer's pay or other benefits are contingent on the actions of its followers, there is probably a conflict of interest, and their recommendations would be considered recommendations for financial products. Therefore, the ASIC will determine whether or not an AFS license is required after carefully reviewing the finfluencer's overall impression. The ASIC's Information Sheet 269 ("INFO 269") offers a code of conduct for financial influencers as well as guidelines for disclosure procedures, thorough due diligence, and advising with care.

Finfluencers are now considered unfair commercial practices by the European Securities and Markets Authority ("ESMA"). Hidden marketing is forbidden by the Unfair Commercial Practices Directive ("UCPD"), and finfluencers who do not disclose sponsored content risk administrative and civil penalties. Any financial guidance or investment recommendations must be objective and appropriately disclose any conflicts of interest in accordance with the Market Abuse Regulations. Furthermore, in order to prevent consequences, finfluencers need

[10] Ghosh, S. (2023, September 4). *Why is SEBI tightening norms for 'FinFluencers'? | Explained*. The Hindu. https://www.thehindu.com/business/markets/why-is-sebi-tightening-norms-for-finfluencers-explained/article67251818.ece

to make sure that "facts are clearly distinguishable from interpretations, estimates, opinions, and other types of non-factual information."

As a result, authorities from various jurisdictions have developed strong regulations to control finfluencers. Through self-regulation, the issuance of consumer alerts and the establishment of advertising manuals, specifically for finfluencers, have offered an extra degree of safety.[11]

Observations and Suggestions

SEBI, with its new guidelines wants to -

- Regulate finfluencers, ensuring adherence to ethical and legal standards in the financial sector.
- Safeguard consumers from misinformation and financial risks by ensuring influencers are qualified and registered.
- Disrupt the revenue streams of unregistered finfluencers, reducing incentives for unethical practices.
- Strict enforcement against unregistered finfluencers, deterring fraudulent activities in the financial market.
- Emphasize transparency, requiring finfluencers to display credentials, promoting accountability and consumer trust.

Given the strong emphasis on registration in Indian law, SEBI is able to establish two categories. One focuses on registered investment advisors (RIAs), who must meet stricter qualifying standards; the other deals with unregistered financial advisors, who must only comply with minimal disclosure and due diligence obligations. The term "investment advisor" will need to be changed in order to incorporate people who give advice without taking into account in order to put this into practice. Furthermore, it should apply to anyone giving financial advice and getting paid in a way that depends on how customers behave. SEBI is authorized to define a new category of finfluencers within the definition of intermediary in accordance with Section 11 of the SEBI Act.

[11] Shetty, N. (2023, September 13). *End of the Party for Sin (Fin) Fluencers? SEBI's Regulatory Crackdown on Finfluencers | India Corporate Law*. India Corporate Law. https://corporate.cyrilamarchandblogs.com/2023/09/end-of-the-party-for-sin-fin-fluencers-sebis-regulatory-crackdown-on-finfluencers/

The 2023 Consultation paper advises RIAs against partnering with finfluencers due to possible unfavourable effects. On the other hand, total ban might unintentionally make investing advice less accessible to the general people. As they actively monitor and approve the content these influencers create and give them the training they need, another strategy proposes that RAs and IAs work with influencers. Following enlistment, finfluencers would be approved agents of RAs and IAs, subject to the same rules and regulations. Since AFS licensees are accountable for the conduct of influencers, this framework guarantees win-win cooperation while protecting investment interests. SEBI ought to think about adopting a similar approach.

SEBI may implement fundamental qualifying standards to guarantee that investors receive high-quality advice. Although they might not be trained professionals like CAs, CFAs, or MBAs required for RIAs, influencers have industry knowledge. As a result, the only requirement for finfluencers should be a minimal qualifying level.

Conclusion

Regulation in the finfluencer space is critical. As evidenced by the cryptocurrency crisis, there may be hazards connected to the advice these influencers give, thus customers need to be adequately protected. Although policies and procedures constantly changeglobally, SEBI must move swiftly and create a regulatory structure to guarantee financial influencers behave responsibly and safeguard investors' interests.

If left unregulated, the domain of fin-fluencers could have far-reaching consequences. It is human nature to be swayed by the promise of instant profits. As a result, it is even more critical to keep unjustified endorsement techniques of financially unfit fin-fluencers in check. Even SEBI-registered research analysts and investment advisers include explicit cautions and disclosures in their investor reports about the possible dangers associated with secondary markets. Educating the general public about the importance of being suspicious of financial influencers' advice is also critical.

With social media's enormous impact in streamlining the average man's existence, following a set of norms has become critical. Influencers should be required to follow a code or suffer the consequences. As restrictive as such regulations may appear, they would weed out charlatans while creating a friendly and safe environment for everyone –the creator and the audience. It will stimulate the publication of well-researched and more reputable material on social media platforms, increasing trust in the creators/influencers. We remain optimistic and await SEBI's response to the growing need for laws for Finfluencers.