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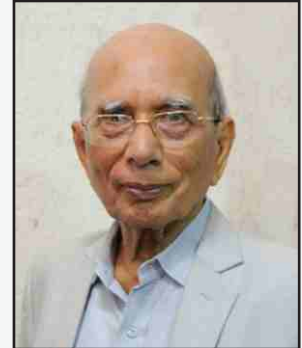
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Administrative Office :
Investor Education
& Welfare Association
407, Reena Complex,
Ramdev Nagar,
Vidyavihar (West),
Mumbai - 400 086.
Website : www.iewa.in
E-mail : info@iewa.in



Mr. Bhavesh Vora
President



Shri. N. L. Bhatia
President Emeritus

Editorial - November 2025

Digital Arrest Fraud: A Growing Threat and the Need for Strong Investor Vigilance

Digital arrest fraud has emerged as one of the most psychologically manipulative forms of cybercrime in India, where scammers impersonate law-enforcement agencies, financial regulators, or courier companies to falsely accuse individuals of crimes and coerce them into staying on video calls until they transfer money or disclose sensitive details. Although this appears to be a standalone crime, it is deeply connected to the broader landscape of financial fraud that threatens investors in the digital ecosystem. Modern investment platforms-broking apps, online KYC systems, mutual fund portals, and digital payment channels-have made it easy for investors to manage their portfolios, but they have also created new vulnerabilities. Increasingly, victims of digital arrest scams are being forced to liquidate mutual funds, redeem fixed deposits, transfer securities, or part with cryptocurrency holdings under the false pretext of "verification" by fake officials. This convergence shows that investor protection today must expand beyond regulating market intermediaries to shielding individuals from external coercive threats that directly drain investment assets.

Both digital arrest fraud and traditional investment scams exploit the same factors: fear, urgency, lack of regulatory awareness, and misuse of perceived authority. People who do not know how real agencies like SEBI, RBI, or the police operate become easy targets, just as uninformed investors fall for guaranteed-return schemes, fake investment advisory services, or pump-and-dump groups on social media. The psychological manipulation used in both forms of fraud highlights the need for stronger financial and digital literacy. Investors must understand that regulatory agencies never demand money over phone calls, never "digitally arrest" anyone, and never ask for remote access or OTPs. Awareness of these basic principles can significantly reduce vulnerability.

To stay alert, investors must begin by recognising that no government agency, regulator, bank, or police authority ever conducts investigations over video calls or demands money, passwords, OTPs, or urgent fund transfers. Any communication that creates fear, urgency, or threatens legal action should immediately be treated as suspicious. Investors should hang up, verify the caller's identity through official websites, and contact the National Cyber Crime Reporting Portal if needed. It is equally important for individuals to avoid responding to unknown numbers, links, or messages that appear to come from banks, exchanges, or SEBI-registered entities, and to independently check whether any advisory or investment service is registered on SEBI's official portals. Investors must enable strong passwords, two-factor authentication, and real-time transaction alerts on their banking and broking accounts so that any unusual activity is detected early. They should never share screen access or installation rights with anyone claiming to be a regulator, and should pause before making sudden redemptions or transferring funds after receiving threatening calls. Maintaining calm, cross-checking information, and seeking advice from trusted family members or financial advisors can prevent impulsive actions driven by fear. Ultimately, an investor's strongest protection lies in awareness-understanding how real authorities operate, verifying every financial instruction, and believing that genuine institutions never use pressure tactics or coercion.

INSIDE

- 1) INNOVATION SANDBOX3
- 2) POINTS TO BE KEPT IN MIND WHILE SELECTING AN INVESTMENT AGENT5

INVESTOR PROTECTION THROUGH EDUCATION

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INNOVATION SANDBOX

The Innovation Sandbox introduced by the Securities and Exchange Board of India (SEBI) represents a major step toward fostering technological advancement, transparency, and efficiency in the securities market. As financial markets evolve rapidly with the integration of advanced technologies such as artificial intelligence, big data, analytics, and algorithmic systems, it becomes necessary to provide innovators with a structured environment where they can safely design, experiment, and refine new solutions. SEBI's Innovation Sandbox serves precisely this purpose. It enables startups, financial institutions, fintech firms, and even individuals to test emerging technologies using anonymized and historical market data without posing any risk to the live market. By doing so, the framework simultaneously promotes innovation, protects investors, and ensures that any new solution entering the market is thoroughly validated and aligned with regulatory expectations.

The core philosophy behind the Innovation Sandbox is to promote innovation in both new products and services, as well as in new modes of delivering existing services. The aim is to generate new opportunities within the securities market while making current processes more efficient, accessible, and investor-friendly. The sandbox creates a bridge between bold technological experimentation and regulatory compliance by giving innovators controlled access to datasets, testing tools, and a production-like environment. This controlled access is crucial because it allows developers to assess the feasibility, accuracy, and market impact of their solutions without exposing investors or infrastructure to operational risks. The regulatory support provided throughout the process helps innovators interpret compliance considerations early in the development cycle, reducing long-term risks and costs.

One of the most important aspects of the Innovation Sandbox is its structured two-stage testing model. In Stage I, participants receive limited access to the test environment with restrictions on computing capacity, storage, and data usage. This stage is intended to validate the foundational components of the proposed solution—such as core algorithms, system architecture, and compatibility with market workflows—while ensuring that testing remains lightweight and secure. Only after an applicant demonstrates tangible progress, a clear testing strategy, and alignment with the sandbox's objectives do they become eligible to shift into Stage II. At this advanced stage, resource caps are removed and the participant gains a deeper and more flexible testing environment. This structure ensures innovators follow a disciplined progression while SEBI and the enabling organizations maintain systematic oversight.

The operational framework of the sandbox is supported by a Steering Committee that consists of representatives from Market Infrastructure Institutions such as Stock Exchanges, Depositories, and Qualified Registrar and Share Transfer Agents. This committee plays a crucial administrative role by examining applications, onboarding eligible participants, monitoring their progress, and ensuring that they follow the sandbox objectives and regulatory expectations. Once an applicant is approved, the designated enabling organization becomes responsible for assisting them with the technical environment, dataset access, and ongoing supervision throughout the testing lifecycle. This multi-institutional structure ensures uniformity, accountability, and transparency across all sandbox operations.

To guide participants effectively, the sandbox integrates well-defined Standard Operating Procedures (SOPs) that outline each step of the testing process. Applicants begin by submitting a detailed application through the Innovation Sandbox portal, explaining their solution, its purpose, data requirements, and the genuine need for testing in a sandbox environment. This justification is essential because only solutions that cannot be fully validated using offline or simple simulated data qualify for sandbox participation. After submission, the

enabling organization verifies all KYC and eligibility parameters, including citizenship or entity registration, governance structure, background checks, and the authenticity of the proposed innovation. Once the Steering Committee approves the project, the applicant must sign confidentiality undertakings and data-use agreements to protect market integrity and ensure responsible usage of supplied datasets.

Once onboarding is complete, Stage I testing begins. At this stage participants are expected to perform systematic experimentation, maintain detailed records of system behavior, assess operational risks, and ensure that their testing remains consistent with the scope approved by the committee. Any significant change in methodology or expansion of data consumption must be pre-approved. Participants are required to submit monthly progress updates, describing achievements, challenges, key metrics, and any risks identified during testing. The emphasis during Stage I is on stability, security, and the validation of the conceptual model.

After completing at least sixty days of Stage I testing, applicants may seek entry into Stage II by demonstrating measurable progress, clarity in their testing roadmap, and identifiable benefits for the securities market or investors. During this transition, the Steering Committee may require presentations or technical demonstrations to ensure that the participant is prepared for full-scale testing. Upon approval for Stage II, all resource caps are lifted, giving the applicant broad access to datasets and infrastructure. This enables deeper experimentation, stress testing, and validation of the solution's ability to function under realistic market conditions. Throughout Stage II, participants must uphold stringent standards of data security, cyber-resilience, and responsible experimentation. Monthly reports remain mandatory and serve as the basis for continuous oversight.

Record-keeping forms an integral part of the sandbox ecosystem. All participants must maintain thorough documentation, including logs, system outputs, user-impact analysis, testing scripts, and data usage reports. These records must be preserved for at least three years after exiting the sandbox. Such documentation ensures transparency, supports future regulatory review, and provides a reliable audit trail in case the solution is later deployed in the live market.

The sandbox exit process is also clearly outlined to ensure smooth transition. Participants nearing the completion of their testing period must submit an exit strategy, which describes either their plan for broad-scale deployment (if the test is successful) or a withdrawal and termination plan (if the testing is unsuccessful or incomplete). In cases where solutions are viable, SEBI reviews the proposal and determines whether the innovation is suitable for wider market introduction. Successful participants then move toward obtaining relevant licenses, approvals, or registrations in line with SEBI regulations. When a project is unsuccessful, participants must close all testing activities, delete datasets, and ensure that no confidential information remains stored.

Overall, the Innovation Sandbox represents a forward-looking, well-structured, and regulatory-sound attempt to encourage responsible technological innovation in India's securities market. It offers innovators a rare opportunity: the freedom to experiment combined with the security of a controlled environment. By providing a clear, supportive, and robust operational framework, the sandbox not only accelerates the development of new market technologies but also strengthens investor protection and market integrity. As India advances toward becoming a global fintech powerhouse, SEBI's Innovation Sandbox stands as a beacon of regulatory innovation—one that aligns creativity with caution, ambition with accountability, and technological progress with long-term market stability.

POINTS TO BE KEPT IN MIND WHILE SELECTING AN INVESTMENT AGENT

We often wonder that though the financial markets offer so many tools, options, modes and resources for investments, there are still a huge number of citizens that have stayed away from the investment market. Though of utmost importance and a necessity, why is the number of insurance policy holders so low as compared to what it actually should be..? Why are investors not showing a keen interest in the mutual fund schemes..? Pension forms an essential source of income in a person's retired life but then why are millions of people without a pension plan..? The answer lies in the fact that most people are still stuck with the traditional modes of investments like schemes for small savings, bank fixed deposits and gold. While it is true that this trend is slowly changing, yet a very small number of investors opt for financial instruments for their savings needs.



HOW SHOULD ONE'S INVESTMENT AGENT BE..?!

Call it an investment agent or a broker or a middleman, they all earn their bread and butter through commissions or fees and so it is natural for them to keep their interests in mind too. Hence, it is necessary for the investors to be aware and alert. At times, in the guise of free advice, investors fall for the trap laid by the so called swindlers. They get their free advice but in return, may run the risk of ruining their own portfolio. That is why investors need to be cautious when they choose their investment advisors. Let us discuss a few points to be kept in mind while selecting an investment agent.

POINT 1:

REASONABLE RETURNS ALONG WITH SECURITY OF THE PRINCIPLE AMOUNT

When an investment product or a scheme is offered by an investment agent, the investor should focus more on the risk factor as well as the track record of returns offered by that scheme or the product. A genuine investment agent is the one whose primary focus is to keep his client's investments safe and secured. Meaning thereby, that that an agent should not create a situation whereby he puts his client's investment capital at risk in pursuit of earning higher returns. The definition of reasonable return would change from person to person. However, insist that your agent discloses all the aspects of risk and return with respect to that scheme or product before investing your money in it.

POINT 2:

SUGGESTS INVESTMENTS BASED ON YOUR PROFILE

An Investment advisor or an agent should be the one who can advise you and make you invest in schemes and products that are suitable to you, keeping in mind the factors that influence your profile like your total income expenses, liabilities, needs of your dependents, future expenses and risk taking ability among others. The agent will consider his commission too, but at the same time it is necessary that he also focuses on your investments' security while safeguarding your interest so that your capital is not washed off or that it just remains a mere piece of paper.

POINT 3:

AFTER SALE SERVICES

Once a product or a service is sold, the after sale services are important too. An investment agent shouldn't be someone who feels that his work is done once he gets his commission. The agent on your investment, should continue to serve you post your investment too. He should be there to guide you if you have any confusions with respect to your investments, should ensure that you get all the necessary documents of that investment or in an event that you need to sell your investments he should always be there by your side. If he is the one to think, "I am not going to get any commission now. So why bother!" then he isn't the one to go to. Say for

example that your insurance agent helps you get a Medclaim but in the event of your hospitalisation, isn't around to help you process your claim, then what is the meaning of having such an agent..?

POINT 4:

KEEPS YOU INFORMED ABOUT NEW INVESTMENT AVENUES

Your investment agent should be smart enough to keep himself updated about new schemes and products that are launched in the market. Also, he should inform you about such products if he feels that they suit your needs based on your profile. With his experience, he should be able to guide you with respect to whether or not you should invest in such newly launched schemes or products. In short, he should be such that without worrying about his own commission, he comes forward to assist you in every respect. If he is interested in selling his own products then he may be good but not ideal.

POINT 5:

KEEPS YOU UPDATED ABOUT YOUR INVESTMENT PORTFOLIO

Your investment agent is ideal if he keeps a periodical record of your investment portfolio in terms of its valuations and fluctuations, say monthly, quarterly or yearly and keeps you posted about the same. If the agent deems necessary, he can also suggest you to make some changes in your existing portfolio. It is best if the agent takes care of your investments with respect to its valuation over time along with the need to shuffle or rebalance your portfolio.

POINT 6:

HELPS YOU WITH THE TAX PLANNING TOO

It is also important that your investment agent, who is already aware of your income status, helps you with the tax planning too, when the year ending is round the corner. Rather than investing in the age old traditional products like insurance policies just to save taxes, he would be better able to guide you with respect to the other investment options available, where along with saving taxes, you also get an opportunity to earn good returns. Albeit, after considering the risk factor and your investment's security.

POINT 7:

QUALIFICATION OF YOUR INVESTMENT AGENT IS ESSENTIAL TOO

It is true that your investment agent or advisor helps you with your investments, but you need to check whether he is qualified to do so or not. For example, for every investment advisor, agent or a share broker, it is necessary that he has the required experience along with the essential educational qualifications in his subject, certificates of which can be obtained by clearing the relevant examinations. Or else you may regret being misled by someone who either isn't properly qualified for this job or is a charlatan, luring you into false promises of doubling your money.

WHAT SORT OF AN INVESTMENT AGENT SHOULD ONE AVOID..?!

Investor awareness seminars are regularly conducted by the Government, various Mutual fund houses, Insurance companies and even Investment agents themselves throughout the country; numerous articles are written on the subject and even television programs are aired. Yet, after all these persistent and concrete efforts, the result and response from the general population is not up to expectations. There has to be some strong specific reason behind this reaction, rather, the lack of reaction, from the people. Let us discuss a few likely reasons behind this irrational behaviour. It will be good if the investors along with the agents and the authorities take a cue from this. And you, as an investor, also check that your investment agent is not like this!

POINT 1:

NOBODY IS INTERESTED IN NOMINAL INCOME

Investment agents are not interested in small investors having nominal funds to invest. The thought process of the investment agents behind this is that they have to put in an equal amount of effort as for a large investor and

yet not be able to charge high fees or earn a huge commission. In our country, the need of a middle-man is still high. It is not easy for a common investor to fill up the complicated investment forms, stand in a queue and complete all the necessary formalities required for a successful transaction. For this, they need an investment agent to help them out. However, these agents are not much interested in helping out small investors, because unlike the big investors, commission income to an investment agent from a small investor is very nominal. Small investment agents initially show some interest in working for the small investors, but since they too aim high, once their business grows, they start neglecting the small investors.

POINT 2:

NO AFTER SALE SERVICE

The follow-up for the small investors is a very rare phenomenon. Sarcastically speaking, after sale services could be considered a luxury for small investors. Once the investment is done and the agent gets his commission, he then loses his interest in the small investors' thinking that he won't be able to get much now, keeping these investors in the lurch. Investing bit by bit, when these small investors accumulate a decent enough amount, they would still have to struggle for an agent's services. And the agent too would show some interest in an investor, only when he is going to get good commission through that investor. Or else, who cares!

POINT 3:

LOT OF MIS-SELLING

When it comes to small investors, the investment agents only care about their own commission. Which is why they sell their own products without even bothering to know whether that product is actually needed or would be useful to that investor. This results in a lot of mis-selling of investment products. Be it in the name of saving taxes or for probability of earning higher and better returns in the future or for one or the other reason, these agents' almost force these gullible investors into buying unsuitable products. Without exaggerating one bit, it wouldn't be wrong to say that a lot of mis-selling of the investment products happen in our country with millions of people involved in it, which goes unnoticed for the time being and then is forgotten over time.

POINT 4:

RISK IN GIVING TRUE ADVICE

An investment agent, who is only interested in his commission income, thinks that it is risky to give true advice to the investors as it could hamper his own business. Their true advice is more for their own interests than the investors'. In short, instead of guiding the investors, some of these agents mislead them for their own benefits and in doing so, they take utmost care that the investor doesn't get a whiff of their deeds. Just like a money minded doctor, who prescribes a CT scan to a patient when his problem can be diagnosed merely by an X-ray by saying that it is better to be safe than sorry or recommends a surgery even when it is not required; there is no shortage of money minded investment agents too. This is the bitter truth. However, not all investment agents are bad. There are good agents too. But the investor needs to check for himself based on his own experiences.

INSTEAD, GET THE BEST SERVICES BY PAYING A FEE!

Lastly, keep in mind that it is best if the investment agent or an advisor charges some fees for the advice that he gives which also covers his responsibilities. Or else, you might end up putting your investments at risk if you get lured by these free tips and advices. These so called middleman or agents are not any saints that they would keep on giving you important tips and information for free; they too have to run their houses. Hence, when it comes to your hard earned capital worth thousands or millions, it is always better to get the best possible investment advice by paying a fee.

Also, remember to check that your agents are registered with or approved by the respective insurance agencies or mutual fund houses. So in event of any wrong doing by the agent, you can always register a complaint against him with these organisations.

RIGHTS AND OBLIGATIONS OF INVESTORS

(Annexure-2 by SEBI)

(Courtesy- Security and Exchange Board of India)

Rights of Investors

- Get Unique Client Code (UCC) allotted from broker.
- Get a copy of KYC and other documents executed from intermediary.
- Get trades executed in only your UCC.
- Place order on meeting the norms agreed to with the Member.
- Get best price.
- Get the contract note for trades executed.
- Ask the details of charges levied.
- Receive funds and securities on time.
- Receive statement of accounts from trading member.
- Ask for settlement of accounts.
- Get statements as per agreed schedule.

Obligations of Investors

- Execute Know Your Client (KYC) documents and provide supporting documents.
- Understand the voluntary conditions being agreed with the trading member.
- Understand the rights given to the Trading Members.
- Read Risk Disclosure Document.
- Understand the product and operational framework and deadlines. Pay margins in time.
- Pay funds and securities for settlement in time.
- Verify details of trades, Verify bank account and DP account for funds and securities movement.
- Review contract notes and statement of account.

Disclaimer : - The illustration are merely indicative in nature which should not be construed as investment advice and neither ensure you profits nor protect you from making a loss in declining market.

INVESTOR PROTECTION THROUGH EDUCATION

On behalf of Investor Education & Welfare Association.