LeadSci
Journal of Management, Innovation and Social Sciences (JMISS)
RESEARCH ARTICLE ISSN: 3105-4935 OPEN ACCESS

Stock Market Investment Barriers in South Asia: A Systematic Review of Retail Participation and Reforms in Pakistan, India, and Bangladesh

Maman Ali[1], Irsa Nawab[2]

[1]*Undergraduate Student, Department of Psychology, Government College University Faisalabad, Pakistan,*
Email: malikmamanali@gmail.com
[2]*Undergraduate Student, Department of Mathematics, University of Wah, Pakistan,*
Email: Irsanawab12@gmail.com

Abstract

This Systematic review examines the paradox of remarkable growths in the Pakistan Stock Exchange (PSX) the KSE 100 Index, increased from 1508 points in 2000 to 177,040 points till june 2026, while the retailer investor participation was extremely low at 0.2% of adult population. The review identifies four major factors responsible for the underdevelopment of Pakistan's retail investor Culture: low trust in financial Institutions due to broker defaults and weak regulatory enforcement, Limited financial literacy with only about one quarter of adults considered financial literate, Complex tax procedures and poorly aligned incentives, and Market Volatility with macroeconomic instability. Regional comparison shows that regulatory incentives in india, such as the investors protection fund introduced by SEBI in 1993 and digital KYC system, had significantly improved investor confidence and market accessibility. It proposes five policy recommendations: establish a PKR 50 billion investor protection fund, introduce a mobile based KYC system, integrate financial literacy education with school curriculum from Intermediate classes, implementation of 3 years tax amnesty for first time investors, and create a dedicated PSX Techboard for SMEs. It estimates that implementation in 18-24 month period could lead to 20% increase in retail investment accounts, 100,000 new accounts, attracting 50 SMEs listing and generating PKR 10 billion in long-term tax revenue. This review contributes to literature on financial inclusion in emerging markets by providing the first systematic 2000-2026 data driven analysis of Pakistan's retail investor trust deficit, offering policy recommendations based on international evidence to create a more inclusive democratic capital market.

Keywords: *retail investor participation, Pakistan Stock Exchange (PSX), financial inclusion, investor protection, emerging markets, financial literacy, capital market development*

Introduction

The Paradox: Growth without Inclusion

The Pakistan Stock Exchange (PSX) presents one of the extreme perplexing paradoxes into the emerging markets finance. In June 2026, the KSE-100 index stood at 117,040 points that is an extraordinary 117 points fold increase from its 1508 point level in 2000. This also represents a compound annual growth rates of approximately 20.5% which is higher than number of global index

**Corresponding Author: malikmamanali@gmail.com*
Received: 22 April 2026; Received in revised form 02 June 2026; Accepted: 16 June 2026;
Available Online: 24 June, 2026

such as S&P 500 (CAGR of 7.5%) and India`s nifty 50 (CAGR 0f 12%). But beneath this fast track lies a fundamental structural constraint, with the share of retail investors in Pakistan being a mere 0.2% of the adult population. This figure is actually over 20 times lower than the global average of nearly 15% and significantly its lower than the rates in other countries and regions such as India (4.0%) and Bangladesh (1.2%). In fact, the Pakistani stock market has seen a growth only because of institutional investors, foreign portfolio investment and high net worth individuals.

The United States has 55% of its adult population invested in stocks, Canada has 49%, and even emerging economies like Vietnam (16%) and South Africa (14%) show much higher involvement. This illustrates the extent of this exclusion. Approximately 16.3% of adults worldwide participate in the stock market on average. Pakistan's rate is not just lower; it is over 80 times lower than the global average and 30 times lower than India's ~6–7% direct participation rate, which as of 2025 had increased to over 120 million distinct investors with demat accounts. The difference between how well the stock market index performs and how deep the market actually is, is another surprising part of the PSX puzzle. As of June 2026, Pakistan's stock market value compared to its total economic output (GDP) was only 19.65%, despite the KSE-100's 77-fold nominal expansion since 2000. Although this figure has improved from the historic low of ~7.5% in 2023, it is still far below its 2007 peak of 36% and is far lower than India's ~134% and developed markets' 150–195% (GuruFocus, 2026; Business Recorder, 2025). This shallow capitalization reflects a structurally thin market: the PSX lists only **561 companies** with a total market capitalization of approximately PKR 18.3 trillion (~$65 billion) which is quite low in numbers as well, in an economy with an annual GDP of roughly $379 billion (Wikipedia/PSX, 2026; GuruFocus, 2026).

Research Questions

This systematic review focuses on four research questions which act as the basis for this analysis:

RQ1: What have been the historical trends of the share market index in Pakistan from 2000 to 2026 and of the retail investors during the same period?

RQ2: What behavioral, informational, and structure based hurdles prevent retail investors from trading in the Pakistan Stock Exchange PSX, and how do their systemic based interactions inform the policy solutions?

RQ3: What evidence-based policy interventions have increased retail investor participation in similar emerging markets such as India and Bangladesh, and to what extent are they transferable to Pakistan's institutional and socio-economic context?

RQ4: What`s the theoretical and literature gap this review will fill and how the retail investor deficit in Pakistan through this study can help in field of emerging markets?

Significance of the Study

There are four important reasons for this review. First, even with a large body of literature on capital market development in emerging market countries, there is no systematic review of the literature on the issue of trust deficit of retail investors in frontier markets such as Pakistan. Previous research (Nishat, 2001; Husain, 2009) has focused on the efficiency of aggregates or foreign portfolio flows, but little work has been done on the micro-level behavioral, informational, and institutional constraints to household participation. This review aims to address this gap by compiling primary sources from official sources (PSX, CDC, SBP), comparative data from peer countries (India, Bangladesh), and literature, making sense of these data into a coherent and usable framework. Second, this review provides policy-relevant evidence for capital market reform. Pakistan's government has pledged to promote financial inclusion and capital market democratization (State Bank of Pakistan, 2025; Pakistan Economic Survey, 2025–26). But the empirical knowledge of retail participation barriers has been limited when it comes to policy decisions. This systematic review also offers the evidence based answers that are based on success in similar emerging markets to shift the policy towards design that must remain evidence based. Third, Pakistan has a broad investor based investments which holds systemic risks. Foreign participation in the PSX has also decreased from 28.7% in 2017 down to 3.2% by November 2024 (Jamal et al., 2024), while retail investors have participated at extremely low on 0.2% level. Fourth, the "Problem → Evidence → Pakistan Application" framework developed in this review takes identified barriers and links them to comparative international evidence and locally adapted solutions, serving as a template for policy analysis in other frontier and emerging markets with similar barriers. Other emerging market and South Asian policymakers can modify the systematic barrier analysis, comparative case study, and solution development approach.

Literature Review and Theoretical Framework

Theoretical Foundations

This review combines three theoretical explanations of the withdrawal of retail investors from markets with weak institutions and high volatility.

The first theory is the "Law and Finance" theory by La Porta et al., (1997, 1998), which claims that investor protection influences capital market depth. They concluded that an investor protection index rise of one standard deviation corresponds to a 36% increase in stock market capitalization over GDP, across and within the 49 economies analyzed. The Securities and Exchange Commission of Pakistan (SECP) has been criticized for lax enforcement and slow redressal of grievances (its average is 180 days compared to 30 days' time taken by SEBI), which directly affects retail participation.

The second framework is the Information Asymmetry Framework (Stiglitz & Weiss, 1981).When investors don't have enough clear information to tell the difference between good and bad investment chances, it can create a 'lemons market' (Stiglitz & Weiss, 1981). Every time Pakistan's broker defaults, and every year it sees 12,000+ complaints with SECP, it is right to have doubts households cannot easily evaluate counterparty risk, and they do not act rationally when they decide to remove their investments.

The third framework is Behavioral Finance (Shiller, 2000; Barberis & Thaler, 2003). Loss aversion is about two times more effective than gain attraction in this case. Having no ruinous losses is a better option for lower-income households than making gains in Pakistan. Negative expectations of safety are strengthened by market crashes.

In synthesis, weak institutions (Law and Finance) are unable to send credible signals of safety. Households have information asymmetries (Stiglitz-Weiss) which makes it difficult to identify it as good investments. Rational withdrawal follows through behavioral responses (Prospect theory). Interruption of this system of connections demands action on all dimensions simultaneously.

Investor Protection and Market Development

The Global Financial Stability Report 2016 (IMF) offers supporting empirical evidence that better corporate governance and investor protection systems increase the ability of emerging market economies to withstand global financial shocks.

India as Comparator: SEBI's Model

The most relevant comparator is India. In 1993, SEBI established the Investor Protection Fund, which was funded by penalties, disgorged amounts, and exchange contributions to protect investors from losses due to broker default or market manipulation. The outcome was spectacular: the number of retail investors holding demat accounts in India rose from less than 20 million in 2010 to more than 130 million by 2025, a 550% increase. The Commission launched Aadhaar-based e-KYC in 2016, which is another measure taken to make the account opening process less cumbersome; Zerodha and Upstox provide zero-commission paperless onboarding.

Bangladesh as Comparator: Mobile-First Access

In Bangladesh, although the scale is smaller, mobile financial services have been used to expand participation. The partnership between bKash and AmarStock on the Dhaka Stock Exchange (DSE) is a novel concept for Pakistan, where users can top up their brokerage accounts with their mobile wallets, and it is something Pakistan could also adopt via its own mobile wallets, JazzCash and Easypaisa.

Literature Gap

Although extensive research has been conducted on capital market development in these emerging economies, it is scanty in the context of Pakistan's retail investor trust deficit. Past research (such as Nishat, 2001; Husain, 2009) has concentrated on market efficiency in the aggregate rather than the impediments at the micro level to the participation of households. This review aims to do the opposite: to provide a synthesized framework from primary data, comparative evidence, and policy analysis.

Methodology

Research Design and Systematic Review Protocol

This study uses a systematic review approach that is widely accepted in the literature and is adapted from the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) guidelines (Moher et al., 2009) and the Cochrane Handbook for Systematic Reviews of Interventions. The review brings together three types of data, this includes quantitative data from official sources time-series analysis of market indexes, investor accounts, and macroeconomic indicators, as well as qualitative evidence from academic literature theoretical frameworks and empirical studies on capital market developments, and comparative policy analysis from regional relevant case studies of India and Bangladesh.

Data Sources and Search Strategy

The sources for obtaining primary data were chosen based on the fact that they are authoritative institutions and as well as it also have comprehensive data. Primary data were sourced from Pakistan

Stock Exchange Annual Reports (2020–2025), data from Central Depository Company, State Bank of Pakistan Financial Stability Review, Pakistan Economic Survey 2024–25, and sources from international organizations such as the OECD Asia Capital Markets Report 2025, World Bank Global Financial Development Database, and IMF Global Financial Stability Report 2016.

Selection Criteria

Inclusion criteria were as follows: (a) studies published 1997–2026 (both basic theory and recent advances); (b) targeting emerging or frontier markets, especially in South Asia (India, Bangladesh); (c) quantitative research design using empirical data and/or mixed-methods research design; and (d) relevance to retail investor participation, financial literacy, investor protection, capital market regulation, and behavioral barriers to market entry.

Exclusion criteria were: (a) studies that do not analyze emerging markets side by side with developed markets (such as US, UK, developed Europe) and only focus on developed markets; (b) opinion pieces, editorials, or commentary not based on empirical evidence, which are not peer-reviewed; (c) studies that are not of more recent date than 2000 but are shown to be relevant to the history of the field or to form a theoretical basis for it; and (d) studies focusing upon corporate finance or capital structure if they are not relevant to retail investor participation.

Analytical Framework

The analysis is presented using the "Fact + Data + So What" method, which is commonly used when analyzing financial aspects in an emerging market; each statement is backed up by primary data and academic references. Comparative analysis is based on the approach of the "Model + Data" and is based on empirical evidence from comparator countries. All claims have been backed up with at least one primary data source and one academic reference. Causal mechanisms are clearly explained and not simply stated, and implications for policy are systematically developed.

Data analysis methods include time-series analysis of the KSE-100 index and growth of retail accounts between 2000–2026 with compound annual growth rate (CAGR) applied to quantify the gap between the index and retail accounts as in comparative institutional analysis with fixed factor methodology applied to the comparative analysis of the SEBI, BSEC, and SECP regulatory frameworks for identifying transferable items thematic analysis of barriers to participation is also categorized and analyzed for systematic interaction and risk assessments of indicators are identified during the policy's implementation process.

Limitations

Several limitations should be taken into account when interpreting the results of this review. First, there are data availability constraints: no official survey measures participation rate of retail investors in Pakistan specifically; therefore, the participation rate of 0.2% has been estimated by dividing CDC accounts by adult population. This estimate has been calculated from an unconfirmed government household survey. Moreover, CDC data lacks demographic characteristics (age, gender, income, education) disaggregation, which hinders the ability to explore heterogeneous participation patterns.

Second, retail non-investors' barriers cited were those reported by Gallup Pakistan (2024), SBP (2025), and OECD (2025) and were not derived from primary survey research. The figures presented here are indicative and not exact, and are not intended to be an exact measurement of barrier size, but rather a representation of the level of the barrier. Third, this desk-based review is largely based on secondary sources for India and Bangladesh data, with no primary data collection or interviews conducted. The data from SEBI Annual Reports, NISM studies, and OECD reports are credible, but primary interviews with SEBI policymakers or broker surveys would provide more information for comparative analysis.

Fourth, the review covers the 2000–2026 time period, covering the development of the market in Pakistan over 25 years, but possibly excluding the 1990s when Pakistan's institutions formed, or projecting future stability beyond 2026. The KSE-100 index for June 2026 could be revised. Fifth, solutions suggested for Pakistan are based on the Indian and Bangladeshi context. These are geographically close and institutionally similar, but policies must be adapted to be applicable. This review tries to highlight some of the adaptations necessary but cannot provide a complete prediction of outcomes of implementation in the context of Pakistan's political economy.

Historical Data Analysis: The Index–Investor Gap (2000–2026)

KSE-100 Index Trajectory

Despite wild fluctuations, the KSE-100 index has shown exceptional growth over the years. The index grew from 1,508 points in 2000 to 177,040 points in June 2026 a 117-fold increase. Key milestones include: privatization, foreign investments, and liberalization of the economy led to the index increasing from 2,701 points to 14,076 points between 2002 and 2007 (an increase of 421%); the global financial crisis of 2008 caused the steepest decline in PSX history with the index dropping 58% to 5,865 points, with $1.2 billion worth of portfolio investment withdrawn from PSX; in 2016, the index reached 47,807 points with the announcement of the China-Pakistan Economic Corridor (CPEC) and improved security situation, with a recovery period from 2012 to 2016; and the index rose from 62,451 (2023) to 177,040 (June 2026) in 2.5 years, by an unprecedented 183% as a result of the resumption of the IMF program, fiscal consolidation, and record low inflation (0.3% in April 2025).

Retail Investor Account Growth

The index increased 117-fold, while CDC data report that the number of active investor accounts has increased from about 100,000 in 2000 to about 500,000 in 2025, which is just a 5-fold increase. This huge gap is the "index-investor gap" the market has expanded much quicker than the number of retail investors.

Foreign and Institutional Dominance

Foreign investor portfolio flows have been somewhat erratic. Foreign investors held around 8.5% of the total market capitalization in 2021, but by November 2024 it had dropped to 3.2%. The biggest outflows were the liquidation of the BlackRock Pakistan ETF ($30 million) and selling of shares in FTSE products by Vanguard (~$100 million). These outflows were largely covered by domestic liquidity, but the withdrawal of foreigners further concentrates ownership among a small domestic elite.

The Vicious Cycle

The data show that there is a definite vicious circle: Step 1 low retail participation leads to limited market liquidity; Step 2 as liquidity becomes more limited, price impact increases as does volatility; Step 3 increasing volatility leads to increased perceived risk and less entry into the retail market; Step 4 reduced retail entry returns to Step 1. This is also supported by the PSX's daily traded value of $67.1 million (CY2024) compared to India's NSE with daily traded value of $4.5 billion (2024). The lack of a wide base causes volatility that is more likely to swing 2,000 points on the news of a single IMF announcement or political event, further encouraging those investors who are risk averse to purchase the stock.

Root Cause Analysis: Four Barriers to Retail Participation

Barrier 1: Institutional Trust Deficit

Pakistan's stock exchange has witnessed many instances of frauds and broker defaulters in the country. The public has lost faith in the stock market following the stock market manipulation scandal of 2005–2006, the 2008 market crash, and regular broker defaults. Fear of broker scams is significant: the data show 68% of non-investors say that they are not investing because of fear of being scammed by a broker. In FY2024, more than 12,000 complaints were received by the Investor Complaint Cell of SECP, and the average time taken for complaint resolution is 180 days, which is six times SEBI's target of 30 days. The trust gap is not just a self-perceived gap, but a structural gap. Pakistan does not have a credible Investor Protection Mechanism, unlike SEBI in India which runs an Investor Protection Fund. The absence of this would indicate to prospective investors that the state is unable to ensure the safety of their capital, which is a basic requirement for market participation (Niazi, S. M. 2023).

Barrier 2: Financial Illiteracy and Knowledge Action Gap

Less than a quarter in the Pakistani adult population is financially literate because there is not even a single official platform or course work that offers the financial literacy concepts to citizens or youth except field work, namely risk diversification, inflation, numeracy, and compound interest. This leaves Pakistan at a considerable disadvantage compared to India 24% and the world average 33%. As per the State Bank of Pakistan's National Financial Education Roadmap 2025–2029, there is a serious illiteracy problem that is being recognized by the government, and 36% of the adult population is financially excluded. The study conducted by Gallup Pakistan in 2024 revealed that 70% of the population in Pakistan does not know the basic information about their credit cards (Shweta, F. 2025).

Comparative analysis shows there is a 20-fold difference India (24% literacy almost equal to Pakistan's performance of 26%) has 4.0% participation while Pakistan's is 0.2% (Munir et al., 2024). This is a critical finding literacy is not the primary barrier. The issue of raising trust among the institutions is an inhibitor rather than literacy. Even university graduates who are well educated are not willing to engage in PSX participation because of the fear of institutional failure and fraud. Financial literacy is a condition for participation, but is not enough. Trust infrastructure is important in the context of literacy. But even an educated investor with an understanding of the need for investor protection would rationally refrain from investing in markets without such mechanisms. In addition, uneducated investors make the situation worse, since they are unable to differentiate between legitimate brokers and fraudsters, leading to very large information gaps.

Barrier 3: Tax Complexity and Perverse Incentive Systems

Pakistan has one of the world's lowest tax filers ratios (1.2%). Non-filers are taxed at 30% on dividend income while filers are taxed at 15% a perverse incentive that imposes a 100% tax rate on returns from dividend income on the population that is most likely to be a first-time investor (Wajid & Ahmed, 2021; Nawazish, 2024). In addition, filers must undergo a three-step registration and verification process, including National Tax Number (NTN) registration, biometric verification, and filing of annual compliance, which lead to significant compliance costs to small investors. The tax filing ratio in Pakistan is extremely low as compared to other countries in the region (India: 5.7% vs. Bangladesh: 2.3%; in both countries market participation is higher).

Barrier 4: Market Volatility and Macro Instability

Twelve of the last 26 years have seen the KSE-100's yearly fluctuation over 30%. The 2008 crash (-58%), the 2017 drop (-15.3%), and the 2022 correction (-9.4%) show that the market is extremely vulnerable to political and macroeconomic shocks (Suleman, 2012). In 2021, the volatility index of Pakistani stocks was 17.28%, ahead of India at 15.2% and Bangladesh at 14.8%. The average daily traded value of the PSX is $67.1 million (CY2024), which represents 0.15% of India's NSE at $4.5 billion (2024), so large orders can impact the price disproportionately (Sajid et al., 2022).

The low liquidity and high volatility are a disadvantage for retail investors, who are generally smaller investors and have longer time horizons. The behavioral finance literature shows that the pain of losing a 50% portfolio is around twice as strong as the joy of gaining 20% annually, and for Pakistani households with low disposable income, the fear of losing half their portfolio trumps the joy of gaining 20% annually (Farooq et al., 2015). This is why even during the bull run in the index (2024–2026, with a 183% increase), retail account growth has been weak (Afzal, 2025).

Comparative Analysis

Table 1: Comparative Overview of Retail Investor Participation and Market Metrics: Pakistan, India, and Bangladesh

Indicator	Pakistan	India	Bangladesh
Retail Investor Participation (% of adult population)	0.2%	4.0%	1.2%
Market Capitalization to GDP Ratio	14.0%	>110%	18%
Daily Traded Value	$67.1 million	$4.5 billion	$45 million
Number of Listed Companies	527	>5,500	315
Total Investment Accounts (CDC/Demat/CBO)	~500,000	140 million	1.5 million
Financial Literacy Rate (% of adults)	26%	24%	19%
Investor Protection Fund	None	Yes (INR 4,000+ crore)	Partial
Mobile/Digital KYC System	Not available	Yes (Aadhaar-based)	Yes (NID-based)
Tax Incentives for Retail Investors	No	Yes (LTCG exemption)	No
SME/Tech Board for Startups	No	Yes (NSE Emerge)	Yes (DSE SME)

Note. *Data compiled from OECD Asia Capital Markets Report (2025), PSX Annual Reports (2020–2025), NSE Annual Reports (2024), DSE Annual Reports (2024), World Bank Global Financial Development Database, SBP Financial Stability Review (2024–2025), SEBI Annual Reports (1993–2025), and BSEC Annual Reports (2024). CDC = Central Depository Company; NID = National Identity Card; LTCG = Long-Term Capital Gains.*

India: From 0.5% to 4.0%

SEBI Investor Protection Fund (1993)

The Investor Protection and Education Fund (IPEF) was created under the Securities and Exchange Board of India Act, 1992, with the following sources of funds: SEBI-imposed penalties and disgorgement, contributions from stock exchanges (0.5% of turnover), unclaimed dividends and securities, and central government grants. As of 2024, the fund corpus exceeded INR 4,000 crore (~$480 million). It provides losses arising from default of brokers (up to INR 25 lakh per investor), coverage for misrepresentation deals in the event of fraudulent transactions, and support for investment industry professionals (Bansal, 2013). A study by the National Institute of Securities Markets (NISM, 2023) found that states with higher expenditure on IPEF per capita recorded 23% increase in demat account growth. The existence of the fund is a "trust signal" even if a broker fails, investors in the fund know their money is secur (NISM, 2023).

Digital Know Your Customer

With the launch of Aadhaar-based e-KYC in 2016, the process of opening an account became significantly simpler in India. The Aadhaar system, which gives each of the more than 1.4 billion Indians a unique digital identity, facilitated instant online verification via biometric authentication, no-paperwork account opening (can be completed in less than 5 minutes), and financial investment opportunities ranging from INR 1. India's total demat account base increased from 20 million in 2010 to 130 million by 2025, a 550% rise, mainly owing to the adoption of digital KYC.

Systematic Investment Plan Culture

The SIP concept started in the Indian mutual fund industry with the introduction of the SIP option that lets investors invest as low as INR 500 (~$6) per month, giving it a disciplined and long-term investor base.

Bangladesh: Mobile-First Market Access

The rate of retail investors in Bangladesh is still low at 1.2%, but has increased by five times from 0.2% in 2010. The driver has been mobile financial services integration. The rapid digital transformation of Bangladesh’s financial sector has positioned Mobile Financial Services (MFSs) as a cornerstone of financial inclusion and socio-economic empowerment. This study explores the evolution, barriers, and impacts of MFS adoption across households and small to medium enterprises (SMEs) in Bangladesh, employing a qualitative research design to capture the multifaceted experiences and insights of key industry professionals.

B-Kash and AmarStock Integration

In conjunction with the Dhaka Stock Exchange, bKash, having 60+ million users, facilitated deposits from mobile wallets directly into brokerage accounts, real-time balance updates, and individual investments as low as BDT 100 (~$0.90). This model overcomes the necessity of bank accounts, which is essential in Bangladesh where only 53% of adults have access to formal banking, and makes use of the fact that Bangladesh has a high mobile penetration rate of 85%.

Regulatory Reforms

The Bangladesh Securities and Exchange Commission (BSEC) introduced IPO online applications (saving on physical paperwork), Central Beneficiary Owner (CBO) accounts with National ID (NID), and compulsory investor education among first-time account holders.

Comparative Overview: Pakistan vs. India vs. Bangladesh

Now let's look at some numbers to see the big differences In Pakistan, only 0.2% of people participate in the stock market, compared to 4.0% in India and 1.2% in Bangladesh. When we talk about the market's size compared to the country's economy (market capitalization to GDP), Pakistan is at 14.0%, while India is over 110%, and Bangladesh is at 18%. The amount of money traded daily is also very different: Pakistan sees $67.1 million, India $4.5 billion, and Bangladesh $45 million. As for listed companies, Pakistan has 527, India has over 5,500, and Bangladesh has 315. The number of investment accounts (CDC accounts) is around 500,000 in Pakistan, a massive 140 million in India, and 1.5 million in Bangladesh. Financial literacy rates are 26% in Pakistan, 24% in India, and 19% in Bangladesh. India has an investor protection fund, Bangladesh has one partially, but Pakistan has none. Mobile KYC (Know Your Customer) is available in India and Bangladesh but not in Pakistan. Lastly, India offers tax incentives for retail investments, which Pakistan and Bangladesh do not. These figures come from sources like the OECD Asia Capital Markets Report 2025, PSX, NSE, and DSE Annual Reports, the World Bank, SBP, and SEBI.

Pakistan Takeaways

Four key takeaways emerge from this comparative analysis. First, trust infrastructure comes first: India's IPEF has been ten years ahead of its retail boom. Pakistan needs to put a plausible investor protection system in place before it can expect a growth in participation. Second, digital onboarding is non-negotiable: India and Bangladesh lessened account-opening friction by using digital KYC. The existing physical documentation practice in Pakistan (NTN, biometric, bank verification) is a major obstacle. Third, micro-investments matter: India's SIP culture and Bangladesh's bKash micro-investments demonstrate that small, regular investments are habitual. The existing minimum standards of investment in Pakistan (usually PKR 5,000+) leave out 80% of families. Fourth, education plus access: access alone did not lead to growth in either India or Bangladesh. The INR 200+ crore a year of workshops, TV campaigns, and school programs funded by SEBI through its Investor Education and Protection Fund demonstrate that education spending is crucial. The amount of money that Pakistan spends on financial education is meager in comparison.

Policy Solutions for Pakistan Based on Evidence

Table 2: Evidence-Based Policy Solutions for Retail Investor Participation in Pakistan

Solution	Problem Addressed	Evidence Base	Implementation Details	Projected Impact
Pakistan Investor Protection Fund (PIPF)	Institutional trust deficit; 68% fear broker scams; no compensation mechanism.	SEBI's IPEF (1993): INR 4,000+ crore corpus; 23% higher demat growth in high-IPEF states (NISM, 2023).	PKR 50 billion corpus (0.5% PSX turnover levy + PKR 10B government seed + penalties); PKR 5M max compensation per investor; 30-day resolution mandate.	150,000+ new retail accounts in Year 1; 20% account growth in 3 years.
Mobile-Based e-KYC via NADRA	Account-opening friction; 45% dropout due to NTN/biometric/bank verification; minimum investment PKR 5,000+ excludes 80% of families.	India's Aadhaar e-KYC (2016): <5 min account opening; 550% demat growth (20M to 130M accounts, 2010–2025).	NADRA digital ID integration; paperless <10 min onboarding; minimum investment reduced to PKR 500; regulatory sandbox for fintech entrants.	170% retail base growth if 1% of JazzCash/Easypaisa users (850,000) onboard.
Financial Literacy in School Curriculum (Classes 9–12)	Only 26% adult financial literacy; 70% unaware of credit cards; no official education platform.	OECD PISA (2018): 25% higher investment comprehension with formal financial education; Malaysia's program tripled youth accounts in 2 years.	Basic concepts (Classes 9–10); advanced stocks/bonds/mutual funds (Classes 11–12); virtual trading competitions; 5,000 teacher certifications/year with SBP/SECP.	10 million+ financially literate adults in 10 years (62% school enrollment; 38% out-of-school remains a challenge).
Tax Amnesty for First-Time Investors	30% dividend tax for non-filers vs. 15% for filers; compliance cost = 20% of returns; complex NTN registration.	India's LTCG exemption (INR 1 lakh/year) and 'Sahaj' form reduced friction and boosted filings.	3-year capital gains & dividend tax exemption for new accounts opened by non-filers; withholding at source to simplify compliance.	200,000+ new tax filers in 3 years; expanded tax base generates long-term revenue.
PSX TechBoard for SMEs	Only 527 listed companies; limited growth-stage	India's NSE Emerge: 400+ companies, INR 1.5T market cap;	Relaxed listing: PKR 100M+ revenue (vs. PKR 500M+ main board); min. 20%	50+ listings in 5 years; PKR 200B+ market capitalization;

	opportunities; retail investors lack accessible high-growth options.	Bangladesh SME platform tripled listings with 8% retail involvement (DSE, 2024).	retail IPO allocation; 5-year CGT exemption; focus on IT/fintech/agritech/green energy; mentorship with LUMS/NUST/Plan9.	100,000+ new retail accounts.

Solution 1: Create a PKR 50 Billion Investor Protection Fund

The problem is lack of trust 68% of non-investors cite fear of broker scam as the major obstacle. Evidence from SEBI's Investor Protection Fund (1993) shows growth from INR 50 crore to more than INR 4,000 crore ($480 million) in 2024. NISM (2023) discovered that growth in demat accounts was 23% greater in states with greater spending on IPEF. The fund indemnifies up to INR 25 lakh per investor in case of default by brokers. For Pakistan, the SECP ought to develop a fund named the Pakistan Investor Protection Fund (PIPF) with PKR 50 billion (~$180 million) start-up capital, with sources including a 0.5% turnover levy on PSX (producing PKR 5 billion per year), government seed capital of PKR 10 billion, and government disgorgement and penalties related to market infractions. It should provide PKR 5 million per investor in case of broker defaults, quick grievance redressal with 30 days maximum resolution time (vs. 180 days on average), and projected change of 20% growth in retail accounts in 3 years with increased investor confidence.

Solution 2: Deploy e-KYC via Mobile

The problem is account-opening friction the existing documentation (NTN, biometric, bank verification) is off-putting to 45% of potential investors. Evidence from Aadhaar-based e-KYC in India decreased the time of opening an account to less than 5 minutes and enabled 550% growth of demat accounts. For Pakistan, SECP needs to require all brokerages to use mobile-based e-KYC based on the digital infrastructure of the National Database and Registration Authority (NADRA). This should include decreasing the minimum investment to PKR 500 (instead of PKR 5,000+), a paperless procedure to open an account in less than 10 minutes using a smartphone, and a regulatory sandbox to permit fintech newcomers to experiment with new onboarding models. The expected impact is that if 1% of JazzCash or Easypaisa users (850,000) open accounts as brokers, the retail base in Pakistan would grow by 170%.

Solution 3: Incorporate Financial Literacy into School Curricula

The problem is financial illiteracy only 26% of adults are financially literate and 70% are unaware of credit cards. Evidence from the OECD PISA financial literacy test (2018) shows that students who had received formal financial education scored 25% higher on investment comprehension tests. The Financial Education Network published by Malaysia (2016) augmented the number of youth investment accounts billions of times in two years. For Pakistan, the Ministry of Federal Education must require basic concepts (saving, interest, inflation, risk) in Classes 9–10, advanced concepts of stocks, bonds, mutual funds, shares in Classes 11–12, virtual trading competitions on PSX data as a practical component, teacher training to certify 5,000 teachers per year in joint programs with SBP and SECP, and curriculum collaboration with NISM (India) and OECD on content. The expected impact is 62% of children that are in the school, this may result in a generation of 10 million+

financially literate adults in 10 years, though 38% are out of school (Pakistan Economic Survey, 2025).

Solution 4: Tax Amnesty for First-Time Investors

Another major problem is complex tax procedure and its higher tax rates for non-filers remain significant barrier to retail investment in Pakistan. For Pakistan, the federal board of revenue should introduce a “First Investor Scheme” that offers a three year tax exemption for long capital gains.

Solution 5: Introduce a Special Technology Board for SMEs

The problem is low investment choices Pakistan has only 527 listed companies and not many growth-stage opportunities for retail investors to invest in. Evidence from India's NSE Emerge (SME platform) has over 400 companies at aggregate market capitalization of INR 1.5 trillion. The SME Platform of Bangladesh (2017) tripled listings and achieved 8% retail involvement (DSE, 2024). For Pakistan, PSX must roll out PSX TechBoard with relaxed listing requirements of PKR 100 million+ revenue (as opposed to PKR 500 million+ on the main board), at least 20% of IPO shares to be sold to retail investors, 5-year capital gains tax exemption on TechBoard investments, sector focus on IT, fintech, agritech, and green energy, and mentorship collaboration with LUMS, NUST, and Plan9 on pipeline development. The expected impact is 50+ listings in 5 years, creating PKR 200 billion+ in market capitalization and 100,000+ new retail accounts.

Implementation Roadmap

Table 3: 18–24 Month Implementation Roadmap for Retail Investor Reforms in Pakistan

Phase / Timeline	Key Actions	Responsible Institutions	Milestones & Targets
Phase 1: Trust Infrastructure (Months 1–6)	• Draft PIPF legislation (PKR 50B corpus) • Establish SECP rapid grievance cell (30-day target) • Launch pilot mobile e-KYC with 3 brokerages • Announce First Investor Scheme tax amnesty	SECP, Ministry of Finance, Parliament	• PIPF bill submitted to National Assembly • 50% reduction in complaint resolution time • 10,000 pilot accounts via mobile e-KYC • Tax amnesty notification issued
Phase 2: Access & Onboarding (Months 7–12)	• Roll out mobile e-KYC nationwide • Integrate JazzCash/Easypaisa with brokerage accounts • Reduce minimum investment to PKR 500 • Launch PSX TechBoard framework	SECP, NADRA, PSX, SBP, Telecom operators	• 100,000 new retail accounts opened • 50+ brokerages offering e-KYC • PSX TechBoard rules published • 5 SME applications received
Phase 3: Education &	• Integrate financial literacy into Classes 9–12	Ministry of Education,	• Curriculum approved by all provinces

Demand (Months 13–18)	curriculum • Certify 2,500 teachers (Year 1 target) • Launch national investor awareness campaign • Host inter-school virtual trading competitions	SBP, SECP, PSX	• 500,000 students exposed to financial concepts • 1,000+ schools participating in competitions • 20% increase in youth account inquiries
Phase 4: Expansion & Evaluation (Months 19–24)	• First PSX TechBoard listings (target: 10 SMEs) • Evaluate PIPF claims processing • Assess tax amnesty uptake (target: 50,000 new filers) • Publish first annual retail participation report	SECP, FBR, PSX, Ministry of Finance	• 10 SME listings; PKR 40B+ market cap • PIPF resolves 500+ claims • 50,000 new tax filers under amnesty • Retail accounts reach 650,000+ (30% growth)

These proposed reforms requires an implementation time period of at least 2 years and a strong coordination among related institutions and regulatory authorities, including the Security an Exchange Commission of Pakistan (SECP), State Bank of Pakitan (SBP), Federal Board Revenue, Ministry of Education, Pakistan Stock Exchange (PSX), and National Database And Registration Authority (NADRA).

International Experiences suggest that these goals are realistic. India achieved a significant milestone and growth in retail investor participation over the past 25 years through coordinated regulatry reforms and has increased market accessibility.

Discussion: System-Wide Implications and Synergistic Effects Systemic Character of the Retail Investment Deficit in Pakistan

Systemic barriers to trust, access, and education have limited the participation of retail investors in Pakistan, but exist as systemic components and not as single problems. This result is far-reaching: fragmented policy solutions cannot work since there are still obstacles in place. The mechanism of the vicious cycle is that low retail participation leads to lack of market liquidity, which leads to high price impact, which leads to extreme volatility, which leads to increased perceived risk, which leads to increased retail deterrence, and the cycle self-reinforces.

All the solutions offered are specific to certain components of the cycle but need to be implemented together. Solutions constitute a network that can solve the vicious cycle: trust infrastructure plus institutional legitimacy through the Investor Protection Fund and financial literacy programs generates trust signals; access plus habit formation through mobile-based e-KYC and SIP-like micro-investments (PKR 500–1,000 per month) generates habitual participation; and tax incentives plus growth opportunities through the PSX TechBoard and 3-year tax holiday form an opportunity set in growth stage with the retail investor risk tolerance.

Macroeconomic Implications

There would be an increase in household savings (14% of income currently in low-yield deposits) into equity markets, creating PKR 500+ billion in new capital. Having more investors gives the market absorption capacity to external shocks to enhance foreign exchange resilience and financial stability.

Implementation Feasibility

The implementation roadmap of 18–24 months will need inter-agency coordination among SECP, SBP, FBR, Ministry of Education, PSX, and NADRA. India has achieved 8x growth in the last 25 years; the smaller aspirations of Pakistan (0.7–0.8% participation by 2031, 60–100% account growth) are achievable with international standards.

Conclusions and Policy Implications

Key Findings

This systematic review addressed the main paradox of the equity market of Pakistan: extraordinary growth of the market and one of the lowest rates of retail investor participation in the world. Five key findings emerged. First, the index-investor gap exists and is growing: the 117-times growth of the KSE-100 compared with the 5-fold growth of retail investor accounts over 26 years is quite striking. In 2000, 66 index points were supported by each active account; in 2025, 348 index points were supported by each account a 5.3x factor that demonstrates gradual market decoupling from retail involvement. Second, trust deficit, not illiteracy, is the major obstacle. Whereas financial illiteracy is important (26% of adults are financially literate), the institutional trust deficit is the constraining factor. Comparative analysis indicates that India (24% literacy almost equal to Pakistan) has 4.0% participation against Pakistan's 0.2%. Other interventions will be dampened without first filling in the trust deficit. Thirdly, all the barriers are connected to each other. Individuals reforms covering a single barrier will be ineffective as well towards other barriers will still be in the play. There should be a wholesome system. Fourth, regional competitive provide an actionable bluprints. The SEBI and digital KYC reveal that participation can grow bitterly and fastly in Pakistan the emerging market settings that exist in Pakistan. Fifth, the proposed 18–24 month implementation roadmap sequences interventions to maximize synergies: first build institutional trust infrastructure; then enable access; then build demand with education and incentives; and finally expand opportunity set. This sequencing is a manifestation of causal reasoning in barrier analysis.

Policy Recommendations: Short-Term Activities

Five short-term actions are recommended. Action 1: Form the Pakistan Investor Protection Fund (PIPF) by legislation with PKR 50 billion corpus (contributed by 0.5% PSX turnover levy, government seed grant, penalties) and compensation of up to PKR 5 million per investor in case of broker default. Projected effect: 150,000+ new retail accounts within the first year.

Action 2: Introduce mobile-based e-KYC. Direct SECP to require e-KYC of all brokerages by end-2027: open account in less than 10 minutes, zero-paperwork, minimum investment PKR 500. Projected effect: 170% growth in retail base in case 1% of JazzCash or Easypaisa users are onboarded.

Action 3: Introduce school financial literacy program. The Ministry of Education should make financial literacy part of Classes 9–12 national curriculum (effective 2027): basic concepts (Classes 9–10), advanced (Classes 11–12), virtual trading competitions, teacher certification. Predicted change: 10 million+ students educated in 10 years.

Action 4: Introduce tax amnesty to first-time investors. The Federal Board of Revenue should declare a "First Investor Scheme" (effective tax year 2027): three-year tax exemption on capital gains and dividend tax on new accounts opened by non-filers, with withholding by source. Predicted effect: 200,000+ new filers in 3 years.

Action 5: Introduce PSX TechBoard. PSX should create TechBoard with soft listing requirements (PKR 100 million+ revenue vs. PKR 500 million+ main board), as well as at minimum 20% retail IPO issue, 5-year capital gains tax exemption. Target: 50+ listings creating PKR 200 billion+ market capitalization within 5 years.

Funding: This research did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors.
Data Availability: The dataset supporting the findings of this study is available from the author upon reasonable request.
Ethical Approval: Not applicable.
Consent to Publish: The author's gives consent to publish this manuscript.
Competing Interests: The authors declares no competing interests.

References

1. Afzal, M. F. (2025). Loss aversion, risk perception, and household financial decisions in Pakistan: A prospect theory assessment. *Asian Finance Research Journal (AFRJ)*, 1–23.
2. Barberis, N., & Thaler, R. (2003). A survey of behavioral finance. *Handbook of the Economics of Finance, 1*, 1053–1128.
3. Business Recorder. (2025, September 12). *Pakistan's market cap to GDP ratio: A mirror to our capital market.* https://www.brecorder.com/news/40382346
4. Central Depository Company of Pakistan. (2020–2025). *Annual reports and investor account statistics.* https://www.cdcpakistan.com/downloads-category/annual-reports/
5. CFA Institute. (2017, December 12). *Pakistan: The growing pains of an emerging market.* CFA Institute Enterprising Investor. https://blogs.cfainstitute.org/investor/2017/12/12/pakistan-the-growing-pains-of-an-emerging-market/
6. Chowdhury, E. K., & Chowdhury, R. (2024). Role of financial inclusion in human development: Evidence from Bangladesh, India and Pakistan. *Journal of the Knowledge Economy*, *15*(1), 3329-3354.
7. Dhaka Stock Exchange. (2024). *Annual report 2023–2024.* Dhaka Stock Exchange Limited. https://sec.gov.bd/
8. Farooq, A., & Sajid, M. (2015). Factors affecting investment decision making: Evidence from equity fund managers and individual investors in Pakistan. *Research Journal of Finance and Accounting*, *6*(9), 53–61.
9. Federal Board of Revenue, Government of Pakistan. (2025). *Finance Bill 2025.* https://fbr.gov.pk/Budget2025-26/FinanceBill/Finance-Bill-2025.pdf

10. Gallup Pakistan. (2024). *Financial literacy and investment behavior survey 2024.* https://gallup.com.pk/post/37561
11. GuruFocus. (2026, June 14). *Buffett indicator: Pakistan stock market valuations and forecasts.* https://www.gurufocus.com/global-market-valuation.php?country=PAK
12. Hawks Global. (2026). *PSX guide: Pakistan Stock Exchange investor handbook 2026.* Hawks Global Research.
13. HelloSafe. (2025). *Stock market participation rates by country 2025.* HelloSafe Global Financial Research.
14. Husain, F. (2009). Financial sector reforms and their implications for the efficiency of the financial system in Pakistan. *Pakistan Development Review, 48*(4), 485–504.
15. IBA Karachi & Akseer Research. (2025). *Retail investor participation in Pakistan's capital markets: Barriers and opportunities.* Institute of Business Administration Karachi.
16. International Monetary Fund. (2016). *Global financial stability report 2016: Fostering stability in a low-growth, low-rate era.* International Monetary Fund.
17. Jamal, A. H., & Ashraf, A. (2024). How demutualization of Pakistan Stock Exchange affected determinants of foreign portfolio investment in Pakistan. *International Journal of Management Research and Emerging Sciences, 14*(2), 87–101.
18. Kanasro, H. A., Jalbani, A. A., & Junejo, M. A. (2009). Stock market liquidity: A case study of Karachi Stock Exchange. *Pakistan Journal of Commerce and Social Sciences, 3*, 25–34.
19. La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. (1997). Legal determinants of external finance. *Journal of Finance, 52*(3), 1131–1150. https://doi.org/10.1111/j.1540-6261.1997.tb02727.x
20. La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. (1998). Law and finance. *Journal of Political Economy*, *106*(6), 1113–1155. https://doi.org/10.1086/250042
21. LUMS Mahbub ul Haq Research Centre. (2021, July 9). *Why do income and wealth inequalities matter for Pakistan?* Lahore University of Management Sciences.
22. Ministry of Federal Education and Professional Training, Government of Pakistan. (2025). *National curriculum framework.*
23. Moher, D., Liberati, A., Tetzlaff, J., & Altman, D. G. (2009). Preferred reporting items for systematic reviews and meta-analyses: The PRISMA statement. *PLoS Medicine, 6*(7), e1000097. https://doi.org/10.1371/journal.pmed.1000097
24. Munir, I. U., Yue, S., Ijaz, M. S., Hussain, S., & Zaidi, S. Y. (2024). Financial literacy and stock market participation: Does gender matter? *The Singapore Economic Review*, *69*(3), 1211–1230.
25. National Database and Registration Authority, Government of Pakistan. (2025). *Digital identity infrastructure and e-KYC framework.*
26. National Institute of Securities Markets. (2023). *Impact of investor protection fund on retail participation in India* (NISM Research Paper).
27. Nawazish, S. (2024). The influence of tax simplicity, knowledge, and awareness on tax compliance, with compliance cost acting as a mediator. *Asian Finance Research Journal (AFRJ).*
28. Nishat, M. (2001). Impact of foreign direct investment on economic growth in Pakistan. *Pakistan Development Review, 40*(4), 1107–1125.
29. Nipa, M. N., Khan, S. R., Milon, M. E. H., Chowdhury, M., & Mahtab, R. (2025). Assessing The Role of Mobile Financial Services in Promoting Financial Inclusion in

Bangladesh. *Rezwan, ASSESSING THE ROLE OF MOBILE FINANCIAL SERVICES IN PROMOTING FINANCIAL INCLUSION IN BANGLADESH (January 01, 2025)*.

30. Naseem, M. A. (2015). Causes of lower stock market participation in Pakistan.
31. Aich, B. R., Tareque, M., Ahmed, T. T., & Rahman, M. M. (2025). Unveiling the nexus of financial inclusion and political stability for capital market participation in South Asian regions. *Borsa Istanbul Review*.
32. OECD. (2025). *Asian capital markets report 2025.* Organisation for Economic Co-operation and Development.
33. Pakistan Economic Survey. (2024–2025). Ministry of Finance, Government of Pakistan.
34. Pakistan Stock Exchange. (2020–2025). *Annual reports and market data.* Pakistan Stock Exchange Limited.
35. Pakistan Stock Exchange. (2026). *KSE-100 index historical data and shareholder information.* Pakistan Stock Exchange Limited.
36. Press Information Bureau, Government of India. (2025, March). *120 million unique investors in Indian capital markets* [Press release].
37. Said, B., Rehman, S. U., & Raza, M. W. (2022). Three major crises and Asian emerging market informational efficiency: A case of Pakistan Stock Exchange-100 Index. *Journal of Risk and Financial Management, 15*(12), Article 619. https://doi.org/10.3390/jrfm15120619
38. Securities and Exchange Board of India. (1993–2025). *Annual reports and investor protection fund reports.*
39. Securities and Exchange Commission of Pakistan. (2024–2025). *Annual report and investor complaint statistics.*
40. Shiller, R. J. (2000). *Irrational exuberance.* Princeton University Press.
41. Shweta, F. (2025). *Wealth wise: Developing digital interventions to advance financial literacy among urban families of Pakistan* [Master's thesis, University of Kansas].
42. State Bank of Pakistan. (2025). *Financial stability review 2024–2025.*
43. State Bank of Pakistan. (n.d.). *National financial inclusion strategy.*
44. Stiglitz, J. E., & Weiss, A. (1981). Credit rationing in markets with imperfect information. *American Economic Review, 71*(3), 393–410.
45. Suleman, M. T. (2012). Stock market reaction to good and bad political news. *Asian Journal of Finance & Accounting, 4*(1), 299–312. https://doi.org/10.5296/ajfa.v4i1.1705
46. Visual Capitalist. (2025). *Stock market participation by country.*
47. Wajid, A., & Ahmed, Z. (2021). Tax compliance behavior of individual taxpayers in Pakistan. *Journal of Business and Social Sciences, 3*(2), 45–58.
48. Wikipedia. (2026). *Pakistan Stock Exchange.* Retrieved June 19, 2026, from https://en.wikipedia.org/wiki/Pakistan_Stock_Exchange