Problem and Prospects of Online Trading in Indian Capital Market – A Study

***Dr.Shailaja.S.M. Associate Professor and Co-ordinator, Dept of Commerce, SSA G F C College, (Autonomous) Bellary**

Abstract

This paper investigates problem and prospects of online trading investors satisfaction on online share trading and technical problems faced by the investors and attitude of share brokers. The satisfaction of investors on online share trading based on brokerage houses were analysed using percentage analysis and the technical problems faced by the investors while trading shares through online using were analysed using Garrett ranking analysis. Primary data were collected from sample 620 respondents through the structured questionnaire. A stock brokerage is an investment services company that is primarily involved in the business of buying and selling stocks and other financial securities on behalf of its clients in return fora fees or commission. The industry operates under close government regulations that aim to protect the investing public. A stock brokerage may not open for business without filing for appropriate registrations and obtaining certain memberships. A stock brokerage may focus on different investment services and clients. It must also be able to provide a wide range of security information to clients for investment research and trade selections. As per Section 65(93) of Finance Act, 1994 "Stock-broker" means a person, who has either made an application for registration or is registered as a stock broker, in accordance with the rules and regulations made under the Securities and Exchange Board of India Act, 1992. A retail brokerage serves only individual investors, whereas an institutional brokerage has the capacity to handle large order flows from institutional investors such as mutual funds. The objectives of the study are to study the investor's perception regarding investment in stock market and to study the investor's behaviour toward market trend on his investment. To study the comparison of broking firms in terms of service provided by them to the investors. Very few brokers insist their clients to fill the 'Instruction Slip', which is required for buy / sale of scrips. Clients also don't bother to take efforts to give the slip when they trade in the market. At the time of dispute this instruction slip can becomes a valid document. The ignorance of investors is beneficial to brokers. When investor gives a telephonic order it becomes difficult to issue instruction slip for him. Majority of big brokers like Motilal Oswal, Angel Broking have a telephonic recording facility at their branches. So in case of dispute (for example a client gives a trade order for Reliance industries and the jobber at broker put the order for Reliance Infra, the dispute arises) this becomes a valid proof for them. It has been observed that sub-brokers or franchisees don't have the facility recording

Key words: Investor, Stock market, Stock exchange, Broker, franchisees, sub-brokers

Introduction

The stock markets in India are one of the oldest in the world and have a strong presence and network of domestic and local intermediaries. Owing to the high incidence of indigenous equity broking, India got a Native Share Brokers' Association as early as 1875; this association later came to be known as the Bombay Stock Exchange (BSE). In 1864, there were more than 1,000 brokers in Mumbai who traded in stocks; high premium was also a familiar concept during that time. In the 1970s the Foreign Exchange Regulation Act (FERA) was introduced that encouraged multinational companies to divest their foreign equity; this phenomenon gave a fresh impetus to retail investing.The Securities and Exchange Board of India (SEBI), which was set up in 1988 as an administrative arrangement, was given statutory powers after the enactment of the SEBI Act in 1992. The main function of SEBI was to protect investor interests in securities, to promote the development of securities markets and to regulate the securities markets. Introduction of a wide range of economic reforms that revolved around the central theme of liberalization of financial markets revived the exuberance in the stock markets during the nineties. Due to the greater freedom and flexibility that accompanied the reforms, stock markets in India set out on a growth journey that was to last in the next one-and-a-half decades

The Sensex, short form of BSE- sensitive index, "market capitalization weighted" index of 30 socks representing a sample of large, well- established and financial sound companies. It is the oldest index in India and has acquired a unique place in the collective consciousness of investors. The index is widely used to measure the performance of the Indian stock market. Sensex is considered to be the pulse of the Indian stock market as it represents the underlying universe of listed stock at the stock exchange Mumbai. Further, as the oldest index of the stock market, it provides time series data over a fairly long period of time (since 1978-79). Sensex is composed of 30 financially sound company stocks which are liable to be reviewed and modified from time to time. The index calculation is done on the methodology of "free – float market capitalization" method. This method is also followed by the leading bourses like doe- Jones. During early 1990s it was at 1000 mark, 5000 in 1990, and 8000 in September 2000 but at the time of writing the article (30.05.07) it is hovering around 14500. The credit behind this meteoric rise of the Indian houses goes to the pro-market new economic policy adopted by the government in July, 1991. Technology plays an important role in broking business. The broking companies like ICICI direct, HDFC Securities promote online trading, but if the online platform is suddenly down with the problem, they do not have a powerful alternate media (like telephonic communication, physical infrastructure) which can be used by the investors to use for trading. (According to Economic Times, On 8th July 2010, many customers of ICIClditect.com, ICICI Securities retail trading and investment services portal were unable to trade through the website because of technical glitch. The site was down for the whole day. Its 'Call N Trade' facility used for placing orders through a phone was also not working. These types of problems unfold the lacunas of the companies who give more focus on technology but fail to give services since they don't have proper physical alternatives or communication channels. Then customers find helpless in such a situation.). This momentum of sensex reflects the splendorous performance of Indian inc. and the consequent success story of the Indian economy

Objective:

This paper intends to explore comparison of broking firms attitude in terms of service provided by them to the investors also To know investor's perception regarding investment in stock market.

INDIAN STOCK MARKET

. Indian stock market behave in a unpredictable manner based on the changes in global markets as the fundamental reasons like global crude oil prices, commodity prices, investment by Foreign Institutional Investors (FIIs) in Indian stock market. India is witnessing fast economic growth in last few years and as a result India has seen large fund inflows and outflows by FIIs into Indian market from across the world. Most of these foreign funds are in large quantum and their activity in the market results in large volatility in stock markets and it also affects the exchange rate. India has a well developed share market system, which is one of the best in the developing world. India has the second largest share holding population with around 2 crore shareholders; next only to the United States of America which has about 5 crore shareholders. India is significantly ahead of countries like Japan, United Kingdom and France in this regard, the Indian figure may look impressive, but it constitutes only 1.5 percent of the total population.

The secondary capital market, on the other hand, is the market for old or already issued securities. It is composed of Industry Security Market or the stock exchange in where industrial securities are bought and sold, and the Gilt-edged Market where the government and semi-government, securities are traded. Secondary market in India got a boost when Over The Counter Exchange of India (OTCEI) and National Stock Exchange (NSE) were established. It may be noted that NSE and OTCEI have been established by the all India Financial Institution, while other stock exchanges are in the form of associations.

National Stock Exchange has a total market capitalization of more than US$2.27 trillion, making it the world's 11th-largest stock exchange as of April 2018.1 NSE's flagship index, the NIFTY 50, the 50 stock index is used extensively by investors in India and around the world as a barometer of the Indian capital market. Nifty 50 index was launched in 1996 by the NSE.

Unlike countries like the United States where nearly 70% of the GDP is derived from larger companies and the corporate sector, the corporate sector in India accounts for only 12- 14% of the national GDP (as of October 2016). Of these only 7,800 companies are listed of which only 4000 trade on the stock exchanges at BSE and NSE. Depository is an institution which holds securities with it, in which trading is done among shares, debentures, commodities, mutual funds, derivatives, future and options. The intermediaries are depository participants and every depository participants need to be registered under any depository in India before they begin then operation in the market. In India, there are two depositories functioning for over a decade NSDL and CDSL.

RECENT TRENDS

As the depository network expanded the NSDL and CDSL had been granted a certificate of commencement of business by SEBI. In the research study based on the factors affecting to open demat account in depository participants. Until the late eighties, the common man kept away from capital market and thus the quantum of funds mobilized through the market was meager. A major problem, continued to plague the market. The Indian markets were drowned in shares in the form of paper and hence it was problematic to handle them. Fake and stolen shares, fake signatures and signature mismatch, duplication and mutilation of shares, transfer problems etc. The investors were scared and were under compensated for the risk borne by them. The century old system of trading and settlement requires handling of huge volumes of paper work.

This has made the investors, both retail and institutional, wary of entering the capital market. However, lack of modernization become a hindrance to growth and resulted in creation of cumbersome procedures and paper work. ince the dawn of 2000, the capital market in Saudi Arabia, has recorded phenomenal growth. The main driver of this has been reforms in the capital market. Growth has been taking place at an accelerated pace, resulting in transformation in both the primary and secondary segments of the capital market. The equity broking has a very long history in India. The equity brokers have been trading in securities from more than one century. They are the entities who have built the foundation of stock markets in India. In 1875 they took the initiative to set up the Bombay Stock Exchange. During the 19th century stock brokers were largely un-organised, but in later phase most of them joined hands with each other to form institutions and organizations. Till 1980's the broking services were used only by the wealthy class who could afford them. In those period brokers used to trade for themselves, and their friends, neighbours, and relatives. From 1980 onwards the broker's business was expanded as a large number of small investors started investing in security markets. During the period of 1980 to 1995 there were many companies who came out with their IPO's. Many of them were deceitful in nature. They wanted to cheat investors.

Harshad Mehta and Ketan Parikh scams push to onlne brokers

Thousands of companies came in market, raised money from people and they vanished from stock market looting investor's money. According to an estimate, these vanished companies have looted more than Rs 50, 000 Crore of small investors. In this period there was an unlawful nexus developed between such mistrustful cheating companies, stock exchanges, and brokers. They started doing their business in deceiving manner. The famous scam of Harshad Mehta and Ketan Parikh happened during 1990 to 1999. The small retail investors were the major sufferers in such scam and they lost more than Rs 20, 000 Crore in these scams. Due to such frightening jolts, small investors found themselves helpless in securities market. There were many basic complaints with broker community like manipulation of securities prices, pricerigging, insider trading activities, delays in investor settlement, lack of transparency, reluctant to pass information to small investors, delay or no delivery of contract notes, no guarantee or assurance of share transfer or money of investors. Though some of the problems like delivery of shares, settlement, and delivery of contract notes are almost eradicated nowadays, some other problems are faced by retail investors. The mistrustful and devious services are still given by some brokers. In fact many other ways the old problems and the new problems like unauthorised trading in client's account are being faced by today's small investor and developing dissatisfaction. The broker's role in 21 st century.

Indian capital market has a huge scope and potential for growth. It is evident from the latest data suggests that only 1.8 Crore De - Mat accounts are opened.

Swamp committee report

Less than 1 % of our total population invest in equities. In developed countries like U.S. and U. K., this percentage is almost 25 to 30 %. In mutual fund industry also the penetration is around 3 to 4 % our population. The insurance sector could penetrate to 8 to 10 %. The banking sector is the most widely spread and most of the household savings come from fixed deposits schemes also small savings schemes like PPF, Kisan Vikas Patra, National Savings Certificates contribute to household savings. India's households are biggest savers among the world. The savings rate as percentage of GDP has grown from 16 % to 28 % from 2000 to 2008. 2) Industrial securities markets: The post liberalisation years of 1991 to 1997 were a golden period for IPO' s. In this period of six years, there were 5018 companies came out with IPO' s and they raised around Rs 56,255 Crore. (Around 85 % of total number of IPO's in last two decades came in these six years) Over the period of last one decade it has been seen that the number of issues are very less but the size of IPO (the amount raised) is very big.

This shows the confidence of corporates to subscribe their IPO's while entering into primary markets. Traditionally Indian investors have always entered the capital market through IPO's because they were reasonably assured of an attractive price and returns. Any decent capital market needs a strong domestic retail base either through direct investment or through mutual funds. According to an estimate in next five years, Rs 1, 82,175 Crore is likely to be raised by companies through IPO' s and FPO' s. The stock brokers in India initiated the process of setting up of an informal association and then later on developing a formal set up of stock exchanges. In India, the Bombay Stock Exchange should get the credit for its establishment of a platform for traders and investors to transact in equity market and other financial products. It was the National Stock Exchange (NSE) who has been from its inception brought the latest technology at exchange level. With its introduction of 'Screen - based trading' technology, NSE could reach to deeper in geographical areas of the country. It has been observed that the derivatives segment contribute to approximately 90 to 95 % of daily turnover whereas delivery based trading is hardly 5 to 10 %. This shows the interest of people in speculative as well as short term trading in equities. This contradicts the basic purpose of stock markets. Basically derivatives are supposed to be used by large institutions like hedge funds, mutual fund companies to hedge their risk in the market, but over the period of year's retail investors developed interest in it and they have actively involved in trading of futures and options products. According to latest data from NSDL and CDSL (JULY, 2010), there are around 1.8 Cr DeMat accounts in India. The research with both the exchanges and the depositories reveal very teresting and disheartening infonnation about present status of total De-Mat account's spread in India. The five states viz, Maharashtra, Gujarat, Delhi, Tamil Nadu and Karnataka hold around 70 % of total demat accounts in India. Out of which 40 % are in two states viz Maharashtra and Gujarat. The data further reveals shocking facts like De-Mat accounts in Union Territories are even less than 1000. In 16 states and Union Territories, demat account number is less than 1 lakh.

SEBI inception stock exchanges.

One of the major reasons behind the establishment of SEBI was to curb malpractices like manipulation of security prices, price rigging by management of companies, insider trading, and delays in settlement. It was established to protect investor and to address the various grievances of players in the capital markets. After two decades from establishment of the regulator it can be said that SEBI has achieved a lot but still not totally successful in achieving its goals. It is observed that the malpractices like insider trading, price rigging are such type of problems associated with corporates has come down drastically, but newer type~ of problems like using client's account for trading, using client's money, introduction of PMS and thereby extracting big commission brokerage from retail investor has increased. These problems are faced by the retail investor today because of wrong doings of brokers.

So on this front of standardizing and regulating of brokers activity, still remains a challenge for the regulator. The Securities Appellate Tribunal (SAT) was constituted as a counter balance and to provide a platfonn for appealing against orders given by the regulator (SEBI). It is overturned a fair amount of SEBI decisions, at times reprimanding the regulator for its oversight or over - reaction. SAT has a history of delivering legally sound and independent - minded orders. However, considering the increased complexities in securities market it may be useful for SAT to induct more members who have relevant experience in dealing with corporate and securities laws.

Recent initiatives of SEBI:

The regulator has been involved in taking various actions, correctives measures, new innovative ideas and suggestions to make Indian capital market a healthy investment avenue for small, retail investor. It has been trying hard by taking many proactive actions to protect and educate retail investor in securities market. Some of them are observed as followed. SEBI has initiated a very simple and easy to fill 'Investor Grievances Submission Fenn' which is to be filled online.

• 'Application Supported by Blocked Amount' (ASBA) Introduction of a convenient system, when retail investor wants to apply for Initial Public Offer of a company.

• Display of IPO grading and name and address of Compliance officer mandatory for any company who is entering primary market and advertising and promoting its IPO through a media like advertisement in newspaper.

• Client - broker agreement: this agreement between a client and his broker is one of the major areas of disputes and grievances between them. SEBI has made amendments in this agreement. According to new nonns, as a part of agreement, 293 brokers will have to return the money lying in client's accounts once in a calendar quarter or month depending on the preference of client. This is an important step in investor protection since a major cause of disputes between broker and his client has been the misuse of funds by broking companies.

• In the month of June 2010, SEBI has asked FIl's issuing promissory notes to disclose their short sales positions daily, instead of disclosing on weekly basis earlier. This will help to control volatility in the markets and retail investors will be aware of short positions of big institutions like FII.

• SEBI has proposed a uniform fee for Portfolio Management Service (PMS) offered by brokers to their clients (investors). The regulator was receiving complaints from many investors' that they are being over charged by their brokers and are charging erratic fees from clients while offering PMS.

• SEBl's action on willful stock exchange defaulters: There are around 1700 companies have been suspended by the BSE and NSE as on December 2009, blocking over Rs 60,000 Crore of 'Individual Investors' money. It has been observed that around 3 lakh investors are unable to sale their holdings due to suspension of trading in those shares. The committee appointed by SEBI will try to compensate the losses of these shareholders. There are some companies who come out with their IPO's. They raise money from retail investors. Then after some time, they purposely don't pay the stock exchanges fees. So stock exchanges suspend them from trading their shares on the exchanges. Ultimately the retail investor suffer because they don't get chance to sale the shares of these suspended companies. Therefore SEBI committee is considering several measures like debarring the directors of the suspended companies from holding similar post in any other company, launching prosecution proceedings against the suspended company. Such type of fraudulent activities of companies makes retail investor stay away from investing in equities.

Conclusion

Each of these brokerage houses has its own pros and cons. They are liked and loathed by investors for different reasons. First of all talking about Religare, this financial company is preferred by stock market players for its economic brokerage rates, online terminal as well as customized services. On the other hand it suffers from drawbacks such as low awareness among investors, insufficient infrastructure and lack of coordination among its branches.

Talking about Sharekhan, it is one of the most well-known players in this segment and boasts of high clientele because of its good and regular research tips, tie-ups with almost all major banks (10 banks to be precise) as well as competent Relationship Managers. But the only stain on its name is because of the fact that it doesn’t care much for its small customers who are not even provided an R.M. Also their terminal charges are also quiet high as compared to that of its competitor. They ask the employees to leave the firm. The firm starts operating in minimum expenses and wait for next revival of downturn to happen. Researcher has closely observed this cyclical nature in last one decade. From 2004 to January 2008, Indian market was booming and made a peak when BSE Sensex touched an all time high of21,200. Then from that it touched a low of around 7,000 in March 2009. During the fall of market the researcher could observed a closures of around 50 branches of various broking firms like ICICI direct, Religare, India Infoline, IL & FS, Karvy broking, Anand Rathi etc. Firms like Angel Broking, Sajag Securities, HDFC Securities, Motilal Oswal, and some other brokers showed a good resilience in this period.

References

1. Brooks, Frank H. (1994). The Individualist Anarchists: An Anthology of Liberty (1881–1908). Transaction Publishers. ISBN 978-1-56000-132-4.

2. Carter, April (1971). The Political Theory of Anarchism. Routledge. ISBN 978-0-415-55593-7.

3. Carter, April (1978). "Anarchism and violence". Nomos. American Society for Political and Legal Philosophy. 19: 320–340. JSTOR 24219053.

4. Chaliand, Gerard; Blin, Arnaud, eds. (2007). The History of Terrorism: From Antiquity to Al-Quaeda. Berkeley, CA; Los Angeles, CA; London, England: University of California Press. ISBN 978-0-520-24709-3. OCLC 634891265.

5. Dirlik, Arif (1991). Anarchism in the Chinese Revolution. Berkeley, CA: University of California Press. ISBN 978-0-520-07297-8.

6. Dodds, Jonathan (October 2011). "Anarchism: A Marxist Criticism". Socialist Review. Retrieved 31 July 2018.

7. Dodson, Edward (2002). The Discovery of First Principles. 2. Authorhouse. ISBN 978-0-595-24912-1.

8. Egoumenides, Magda (28 August 2014). Philosophical Anarchism and Political Obligation. Bloomsbury Academic. ISBN 978-1-4411-4411-9.

9. Evren, Süreyyya (2011). "How New Anarchism Changed the World (of Opposition) after Seattle and Gave Birth to Post-Anarchism". In Rousselle, Duane; Evren, Süreyyya (eds.). Post-Anarchism: A Reader. Pluto Press. pp. 1–19. ISBN 978-0-7453-3086-0.

10. Fernández, Frank (2009) [2001]. Cuban Anarchism: The History of A Movement. Sharp Press.

11. Franks, Benjamin (August 2013). Freeden, Michael; Stears, Marc (eds.). "Anarchism". The Oxford Handbook of Political Ideologies. Oxford University Press: 385–404. doi:10.1093/oxfordhb/9780199585977.013.0001.

12. Franks, Benjamin (2018). "Anarchism and Ethics". In Levy, Carl; Adams, Matthew S. (eds.). The Palgrave Handbook of Anarchism. Springer Publishing. pp. 549–570. ISBN 978-3-319-75620-2.

13. Jeppesen, Sandra; Nazar, Holly (28 June 2012). "Genders and Sexualities in Anarchist Movements". In Ruth Kinna (ed.). The Bloomsbury Companion to Anarchism. Bloomsbury Publishing. ISBN 978-1-4411-4270-2.

14. Jun, Nathan (September 2009). "Anarchist Philosophy and Working Class Struggle: A Brief History and Commentary". WorkingUSA. 12 (3): 505–519. doi:10.1111/j.1743-4580.2009.00251.x. ISSN 1089-7011.

15. Jun, Nathan (2018). "The State". In Levy, Carl; Adams, Matthew S. (eds.). The Palgrave Handbook of Anarchism. Springer Publishing. pp. 27–47. ISBN 978-3-319-75620-2.

16. Gabardi, Wayne (1986). "Anarchism. By David Miller. (London: J. M. Dent and Sons, 1984. Pp. 216. £10.95.)". American Political Science Review. 80 (1): 300–302. doi:10.2307/1957102. JSTOR 446800.

17. Gifford, James (2018). "Literature and Anarchism". In Levy, Carl; Adams, Matthew S. (eds.). The Palgrave Handbook of Anarchism. Springer Publishing. ISBN 978-3-319-75620-2.

18. Goodway, David (2006). Anarchist Seeds Beneath the Snow. Liverpool Press. ISBN 978-1-84631-025-6.

19. Graham, Robert (2005). Anarchism: a Documentary History of Libertarian Ideas: from Anarchy to Anarchism. Montréal: Black Rose Books. ISBN 978-1-55164-250-5. Archived from the original on 30 November 2010. Retrieved 5 March 2011.

20. Graham, Robert (2018). "Anarchism and the First International". In Levy, Carl; Adams, Matthew S. (eds.). The Palgrave Handbook of Anarchism. Springer. pp. 325–342. ISBN 978-3-319-75620-2.

21. Guerin, Daniel (1970). Anarchism: From Theory to Practice. Monthly Review Press. ISBN 9780853451280.

22. Harrison, Kevin; Boyd, Tony (5 December 2003). Understanding Political Ideas and Movements. Manchester University Press. ISBN 978-0-7190-6151-6.

23. Heywood, Andrew (2017). Political Ideologies: An Introduction (6th ed.). Macmillan International Higher Education. ISBN 978-1-137-60604-4.

24. Honderich, Ted (1995). The Oxford Companion to Philosophy. Oxford University Press. ISBN 978-0-19-866132-0.

25. Imrie, Doug (1994). "The Illegalists". Anarchy: A Journal of Desire Armed. Archived from the original on 8 September 2015. Retrieved 9 December 2010.

26. Joll, James (1964). The Anarchists. Harvard University Press. ISBN 978-0-674-03642-0.

27. Kahn, Joseph (2000). "Anarchism, the Creed That Won't Stay Dead; The Spread of World Capitalism Resurrects a Long-Dormant Movement". The New York Times (5 August).

28. Kinna, Ruth (2012). The Bloomsbury Companion to Anarchism. Bloomsbury Academic. ISBN 978-1-62892-430-5.

29. Kinna, Ruth (2018). The Government of No One, The Theory and Practice of Anarchism. Penguin Random House. ISBN 978-0-241-39655-1.

30. Klosko, George (1999). "More than Obligation - William A. Edmundson: Three Anarchical Fallacies: An Essay on Political Authority.- The Review of Politics". The Review of Politics. 61 (3): 536–538. doi:10.1017/S0034670500028989. ISSN 1748-6858.

31. Klosko, George (2005). Political Obligations. Oxford University Press. ISBN 978-0-19-955104-0.

32. Kristjánsson, Kristján (2000). "Three Anarchical Fallacies: An Essay on Political Authority by William A. Edmundson". Mind. 109 (436): 896–900. JSTOR 2660038.

33. Laursen, Ole Birk (2018). "Anti-Imperialism". In Levy, Carl; Adams, Matthew S. (eds.). The Palgrave Handbook of Anarchism. Springer. pp. 149–168. ISBN 978-3-319-75620-2.

34. Lenin, Vladimir (1961). Anarchism and Socialism. Lenin Collected Works. 5. Moscow: Foreign Languages Publishing House. pp. 327–330 – via Marxists Internet Archive.

35. Levy, Carl (8 May 2011). "Social Histories of Anarchism". Journal for the Study of Radicalism. 4 (2): 1–44. doi:10.1353/jsr.2010.0003. ISSN 1930-1197. S2CID 144317650.

36. Levy, Carl; Adams, Matthew S. (2018). "Introduction". In Levy, Carl; Adams, Matthew S. (eds.). The Palgrave Handbook of Anarchism. Springer Publishing. pp. 1–23. ISBN 978-3-319-75620-2.

37. Long, Roderick T. (2013). Gaud, Gerald F.; D'Agostino, Fred (eds.). The Routledge Companion to Social and Political Philosophy. Routledge. ISBN 978-0-415-87456-4.