

# Relevance of Stock Broking Industry in Capital Market with Special Reference to BSE, Mumbai

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**Abstract:** With more and more disposable income available with the people working in the various sectors and with many investment opportunities available, each individual wants to invest in the share market and want to have a sizeable portfolio. The stock brokers and other various intermediary agencies play a vital role in the capital market. The investor may not be aware of the working of the stock market and the stock broking agencies have to take the responsibility of the buying and selling of shares on their behalf. The agencies inform the investors about the various products and services so that they can invest in alternatives that are more profitable and also provide them with wealth maximization products. On many occasions, the investor may not know how to operate the De-mat account, or may not be a computer user nor may have the time and resources to analyze the stock market. In such a situation, the advisory services of the stock broker becomes very essential because it is very difficult for a new comer to predict a particular stock performance as the stock market is most of the time very volatile. The present study is an attempt to study the present relevance of stock brokers and scope for stock broking Industry in the capital market. For this study, secondary data has been used to find out the importance and scope of broking industry.

**Keywords:** Stock Brokers, Investors, Mobile app, De-mat account and turnover

## I. INTRODUCTION

The Indian broking industry has grown significantly over the last decade in terms of both size and scope. The relationship between the stock broker and the investor has always been very rocky and also very beneficial to both of them. The broker who has an inside knowledge about the companies and also the share market can always help the investor make the right investment decision and thereby charge a fee for the services offered. Since the small time investor may be new to the market, the knowledge accumulated by the broker as per his experience can be hugely beneficial to the small investor who may be a first timer and a new entrant to the stock market. If the advice given to the first timer is beneficial to him, then there may be many more first timers who would have been introduced to the stock broker by the benefitted one.

The time is ripe for the Indian investors and also the stock brokers to make a killing in the BSE and earn some

money. A stable government at the Centre, new ventures coming up governments make in India initiative, Digital India, skill India, infrastructure development, enhanced FDI in the various sectors and other reasons have added advantages to be witnessed in the stock market in the near future.

## II. REVIEW OF LITERATURE

**S. Chris Robertson** (2006), his study entitled "Benefits of using a stock broker as a new investor", in his study he reported the aspects like stock trading and investment opportunities in present scenario. A new investor is probably facing tremendous pressure in the financial world today with each and every investment opportunities that arises every day, and that potentially brings wealth and prosperity to the investor. Online stock trading creates worldwide investment opportunity and as a new investor, all these can be understood with the help of a stock broker who will help him take his decision concerning his investment and help him manage his investments. Therefore, for a new investor the stock broker can be a solution for all his problems.

**Jennifer Lynn Hanson**, (2009) in her study entitled "Internet Stock Broker advantage cheap online stock investing" found that Stock trading can be done through internet websites with the help of stock brokers. Hanson was of the conclusion that no one makes a financial investment with the goal of losing money and making a financial gain is everyone's objective and many investors who were at an disadvantage earlier have found the goal to be achievable after the use of internet for stock market trading. After the internet was invited and made available to the investor and also the common man, a smooth outline trading has been created by effective guidance of brokerage agency. Hanson is also of the opinion that the internet stock trading has eliminated the tradition method of brokerage.

**J VICTOR** (2011) in his study entitled, "The Brokers Role in Investing is of the opinion that the stock broker is an agent and is performing a service for the investor and the broker acts as an agent for the buyer and seller of the security and ensures best investment on commission basis. The broker will buy for the investor and sell for the seller each time ensuring that the best price is obtained from the

client and provide valuable services and information to help him make the right investment decision.

Anurag Bansal (2015), The customer has been empowered by the broking industry along with the regulators and exchanges through the numerous initiatives which include the introduction to the new investment avenues, educating and making the investors aware, increasing the reach, advancement of technology and higher accountability of the various market participants. These steps will encourage the retail investors to invest in the stock market and these points have been highlighted by ANURAG BANSAL in his study.

In an article in **Form Views** (2015) mentions that the mobile trader app is attracting huge attention and will increase the growth in volume. The endeavor for exchange and increasing internet and mobile participation over the years helped broking industry to increase their business operations.

### III. RESEARCH DESIGN

#### A. Objectives of the Study:

The following are the main objectives of the present study

1. To understand the importance of stock broking industry in capital market
2. To study the function of Stock brokers
3. To find out the future prospectus of stock broking industry

#### B. Research Methodology:

The present study is made to be an exploratory research. The nature of the data is secondary. The secondary data were collected from the annual reports of CDSL, Hand books of SEBI, other websites and various journals. To achieve the objective of present study various statistical tools like graph and charts have been used.

### IV. HISTORICAL BACKGROUND

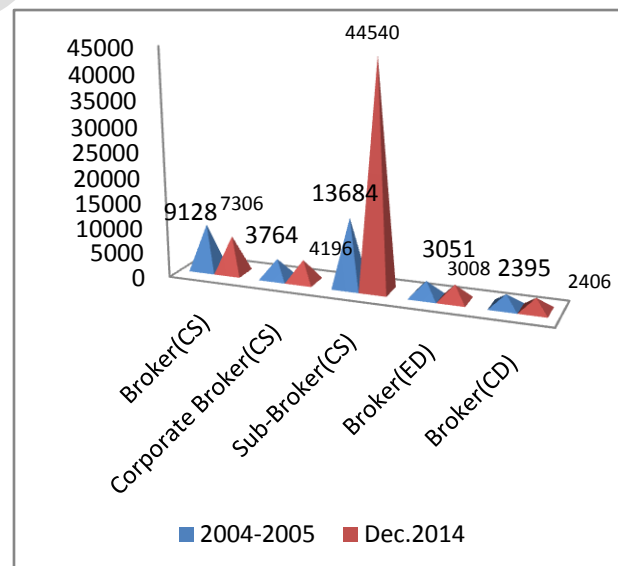
The stock exchanges are allowing trading members to trade in stock exchange. They play a significant role in the secondary market by connecting the buyers and the sellers together. The brokers give buy/sell order either on their own account or on behalf of clients.

Indian stock broker have a history dates back to the eighteenth century. Till the end of 19<sup>th</sup> century, brokers trading were unorganized. They started their trading in Bombay and Calcutta out of this two, Bombay trading was comparatively too good. In Bombay (now Mumbai), initially stock broker traded bank shares and later on in 1930s, started stock and shares of cotton presses. In 1860-61, no. of broker was only a dozen and their traded under a banyan tree in front of the town hall in Bombay. Due to the rapid development of commercial enterprises in the 1850 many brokers came into this field. In 1860, it was increased to 60. In the prevailing share mania, the number

of brokers rises to above 250, but in the aftermath of the price crash they are hard-pressed to find a place for their regular meeting. Due to the hectic and swift development of shares trading business by 1874, broker used to gather in the Dalal Street Bombay for transacting their business .Consequently the stock broker organized an informal association in 1875 called ‘The Native Share and Stock Broker’s Association Bombay’. That was formed with 3128 member who pay an entrance fee of 1 rupee is set up. The generis of the present day BSE is clearly traceable to their humble beginnings. A premise was hired in 1875 so that the indignity of trading in public comes to an end.

The year 1880 witnessed the emergence of many cotton mill industries in several parts of the country especially in Maharashtra and Gujarat. Because of that, regional wise stock exchanges were started and many stock brokers also entered into it. In 1920 Madras Stock Exchange was started with 100 brokers. The authorities have been encouraging corporatization of the broking industry in India. As a result of that, a number of brokers-proprietor firms and partnership firms have converted themselves into corporate. As of end December 2013, 4811 brokers accounting for nearby 53.3% of the total brokers have become corporate entities. 88.6% of the brokers who registered under NSE were corporatized followed by BSE with 83.5% corporate brokers. As at and December 2014, there were 44,540 sub-brokers registered with SEBI out of which 19,392sub brokers registered under BSE and 24,522 under NSE and together constituted 98.59% of the total sub-brokers. Following figure shows the number of stock broker registered in SEBI.

Fig.1: Stock Brokers in India



(Source:SEBI)

#### Stock Brokers in BSE

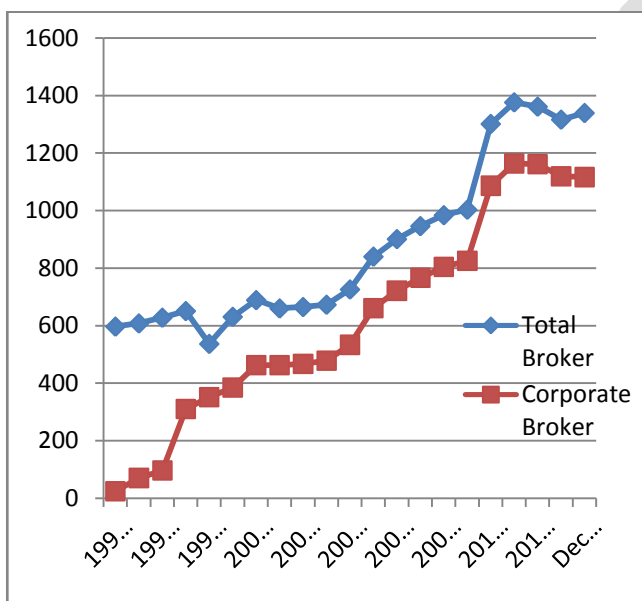
Stock brokers in BSE have undergone sea change since the inception of BSE in 1850 to the current period. The process of conducting business orally to the current on-

line trading is due to the massive growth of technology and brokers initiatives. In the present day trading system, brokers to the trading by getting an order form the investors by phone calls only. The scenario in trading changed since 1995 when online trading started. The system and new technology, slowly caught up with the trading community which embraced it whole heartily.

Initially a dozen stock brokers formed an informal association in the name of The Native Share and Stock Brokers Bombay in 1875. At present there are 9150 registered brokers in all the 26 stock exchanges in India with BSE constituting 1349 number brokers making it one of the highest with registered brokers.

In 2004, the number of stock brokers registered with BSE was 726 and in 2013, the registered brokers' number grew to 1349 which shows that in the latest decades the number of broker registered at BSE almost doubled which indicates a good growth in stock broking business and the performance of BSE. Following figure shows the total number of stock broker's and corporate broker registered under BSE.

Fig. 2: Corporate Broker in BSE



(Source:SEBI)

## V. FUNCTIONS OF STOCK BROKERS

A stock broker or share broker is a regulated professional broker who buys or sells shares and other securities through market makers or agencies on behalf of investor. A broker may be employed by a brokerage firm. The functions of stock broker are as follows.

*1. Act as an agent:* A stock broker acts as its agent of an investor and represents his clients to buy or sell shares and other financial instruments. The primary role of a stock broker is to execute transaction on behalf of investors, he will buy and/or sell securities in the stock market. As a

representative of his clients, a stock broker brings the best offer to buy and sell stock.

*2. Seeks best deal:* A stock broker represents a client, finding the best deal to buy or sell stocks for investors. Most brokers deal in all types of securities and many also handle commodity futures. The sub broker may also advice a client on when to buy or sell a stock or what to watch for in market dealing, but he is not a licensed investment adviser.

*3. Handling the trade:* A broker takes an order from a client to buy or sell a stock, passes it through his brokerage firms network to a floor trader. Now, through the software provided by stock broking firm, investor/trader can directly place the order.

*4. Paid on commission:* Individual brokers are paid on commission usually as a percentage of the value of the trade. Commissions and fees vary.

*5. Advice:* Most of the individual broker charges a certain percentage of the transaction of buying and selling of stock. There are two types of brokers, one is discount and another one is full service broker. Discount broker mostly is individual broker who won't give advice and simply does the transaction. On the other hand, full service broker actually help the investors to choose the stock for investment by giving advice, and charge's some additional amount along with their regular commission.

*6. Spectrum of service offered:*

A) Discount / online broker: The traditional discount/online brokers is an order taker. They will take investor's order either over the phone or online. On the other hand, if investor is dealing with them online, one will be there to actually talk.

B) Discount/online with assistance broker: This variation offers some help to customers that stops of full services consulting.

C) Full service broker: The traditional full service broker provides recommendation of specific stocks for investor's consideration. The broker begins with a financial assessment of investor's personal situation to determine the investor's need and suitability for various investments.

D) Money Manager: Money Manager takes over the responsibility for investing and managing the entire portfolio in exchange for a percentage of the assets they manage.

*7. Products:* Brokers offer many different types of products besides stock. Often, packaged products such as mutual funds and annuities are important parts of the recommendation.

*8. Insurance protection:* Majority of the brokerage firms are members of the Securities Investor Protection Corporation (SIPC) which provides insurance for losses

suffered in the event of financial difficulties and liquidation of brokerage firm to investors.

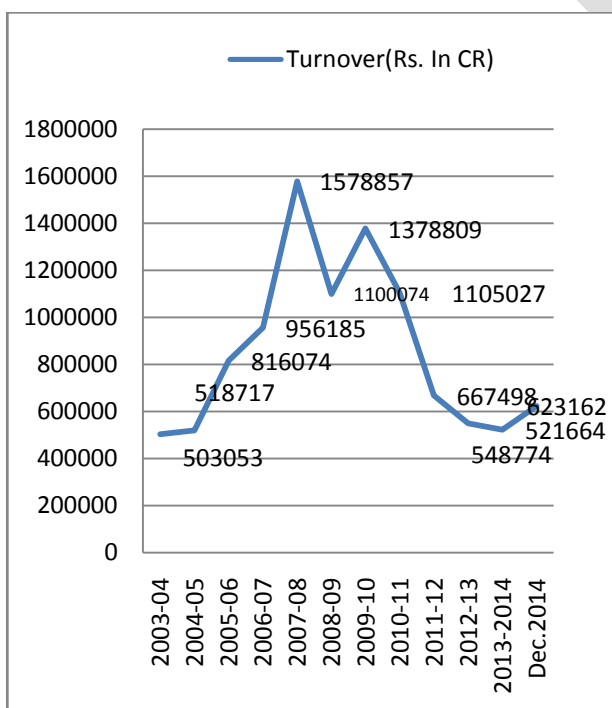
9. *Offers special accounts:* Additional services and facilities may be available in special accounts that give the stock broker discretion to make traders for investors without each trade being approved by the investors, known as discretionary accounts. Credit for the purchase of additional securities may also be provided by its use of margin accounts.

VI. PERFORMANCE IN CAPITAL MARKET

In the last few years, the Indian Equity Markets witnessed extreme volatility which kept the retail investors at bay and thus has witnessed lower participation from the small investors. However, initiatives are being taken by the regulators, SEBI, Stock Exchanges and intermediaries to improve accountability and transparency in order to safe guard the interests of the small investors, which is likely to increase confidence and help the intermediaries to conquer the lost battle. The brokerage industry is cyclic in nature and its fortunes are directly dependent on the performance of the broader markets.

However, the broking firm also acts as a financial service provider thereby providing a broad range of services like wealth management, portfolio management, fund manager, mutual fund distribution, NBFCs, and Advisory services. In addition to an overall positive sentiment, the endeavor of the market regulator to boost retail participation in the capital market has also given a fillip to the overall trading activities through broker terminals. The turnover in cash segment of BSE is given in figure 3.

Figure.3: Turnover in Cash Segment of BSE

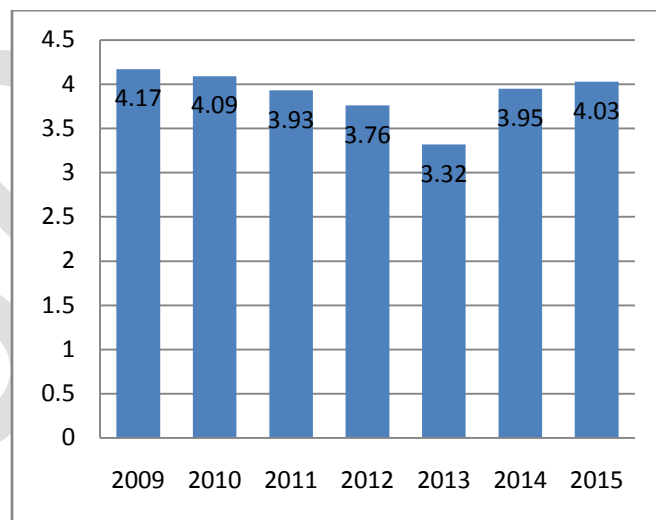


(Source:SEBI)

VII. MUTUAL FUNDS, THE TOAST OF THE SEASON

The mutual funds are back in the limelight and the investor accounts or folios in the first ten months of fiscal year 2014-15 has seen a surge of over 16 lakh accounts and the remaining 2 months saw an increase of another 3 lakh accounts approximately, which is a very basic assumption as per the accounts of the first 10 months of FY 2014-15. The AUM or the assets under management of Mutual Funds hit a record high of INR 11.8 Lakh crores in Jan 2015 on the back of continuous inflows across various categories especially in equity. Following figure shows equity folios from financial year 2009 to 2015 and for financial year 2015, data was taken till December 2014. The mutual fund is a comparatively safe option for a new or small investors as the funds are managed by fund manager or a stock broker who act as intermediary between the investor and stock market

Fig. 4: Mutual Fund- Equity Folios (in Crores)



(Source:BSE Forum)

The AUM of Mutual Funds from Feb to June 2015 is a modest INR 3 lakh crores approximately which is a very healthy and a positive development. Till January 2015, there was a surge of AUM of equity MFs to INR 3.4 lakh crores and has been a consecutive nine months of positive flows on the back of robust sentiments and improving earnings outlook for India INC, which has been the key driver for the Indian equity markets. The period from January 2015 to June 2015 has been very positive for the stock market and the AUM equity MFs has risen close to Rs 1 lakh crore approximately which is a very modest calculated average, which is based on the AUM of Mutual Funds which was calculated till June 2015 at 3.4 lakh crores INR.

VIII. REGULATORY INITIATIVES AND INTERMEDIATELY EFFORTS

SEBI along with other participant is constantly striving to improve investor's confidence and awareness in order to

bring a change in the individual outlook towards equity market as a long term and prudent investment destination rather than a place for speculative bets. Investors education and awareness, being one of the prominent and important step to inculcate better investment habits among retail investors is been introduced by way of higher number of investor conferences across the country.. Further, to fast fund raising, SEBI is going to introduce e-IPO. This will certainly enhance overall efficiency in primary market and increase investors participation. While, the Government has maintained its status quo on Securities Transaction Tax (STT), abolition or reduction of taxes could have been a welcome step for broking industry at large.

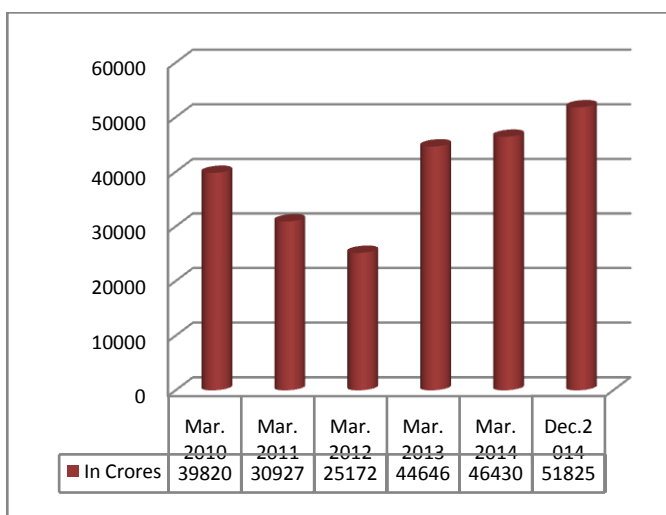
The stability in the government and also a very growth oriented announcements and policy adopted by the government is helping the Indian companies increase their share and also the investment in the stock market.

IX. FUND RAISED

In the last one year or so, we have seen many start-ups do well in the stock market thereby paving the way for many such people and industry, that will help the stock market grow in the long run. The stock brokers are overwhelmed by the response to the stock market by the small time investors and also the keen interest they are showing in investing in the stock market. Many companies are providing ESOP's or the employee stock options to its staff to introduce them to the stock market thereby increasing the market share and giving them an option to invest in other companies shares with the help of stock brokers.

With the help of stock broking industry, many company raised financial resources to their company equity and debt instruments like public issue, right issue, IPOs, CCPs, bonds, etc. Following figure shows that total funds raised by corporate sector from March 2010 to December 2014.

Fig.5: Resources raised by Corporate Sector (Equity and Debt)



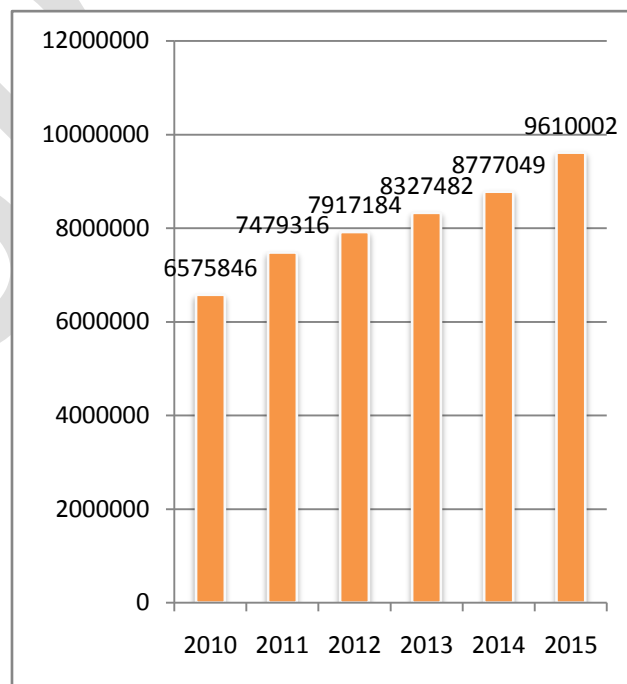
(Source:BSE)

X. INCREASING DE-MAT ACCOUNTS

Rising number of investors have started opening de-mat accounts after the recent rally at the indices. As on January 2015 there were a total of 12.9 lakh de-mat accounts opened during financial year 2014-2015. Moreover, the residents of tier II and the tier III cities are also turning to the stock markets and we have seen an increase in De-mat account holders in such cities and also the rural areas which is seen as a very encouraging trend.

During the year under review, 12.57 lakh Beneficial Owner (BO) accounts were added, taking the total number of such accounts to 130.87 lakhs with the net BO accounts at 96.10 lakhs as on 31 March, 2015. The comparative figures of gross and net BO accounts as on 31 March, 2014 and 31 March, 2015 are 13,087,397 (Gross), net is 9,610,002 and Gross 11,829,968, net is 8,777,049 respectively. Following chart shows beneficial owner accounts opened through CDSL.

Fig. 6: Beneficial Owner Accounts (as on 31<sup>st</sup> March)



(Source: CDSL)

XI. TECHNOLOGY IN CAPITAL MARKETS

One of the major driving factors for the increase in the activities and business in the stock market has been the internet penetration and also the use of smart phones everywhere. Internet connectivity and also the internet penetration has helped the investor open De-mat accounts and also trade in the share market with the help of online share brokers. This has liberated the investors from being physically present and can trade from anywhere which has been a boon as the investor can trade as per his

convenience during the market hours. The smart devices (smart-phones) with a data connection is another boon for the share brokers and also the share investors as he/she can do the trading from anywhere with a login and is even easier than online trading using an internet connection in a PC or a Lap-top.

Fig. 7:Technology in Capital Market

Segment	Till Dec.2014(Rs. In Cr.)	% of cash Market Turnover
Mobile Trading	221	1.39
Internet Based Trading	1754	11
Cash Retail market daily average	7782	48.79
Cash market daily average turnover	15952	

(Source: NSE)

The smart phone penetration is increasing day by day and is expected to overtake the basic phone completely and it is estimated that even if a small percentage of smart-phone users use their phone for trading, it is going to be a very significant number which will increase the stock market trading tremendously. The launch of Mobile trading has also become focus area for brokerages. If data are to be believed the average daily turnover through mobiles has increased 2.5 times to Rs.221 crore as of November 2014, from Rs.88 crore in January 2014.

## XII. SUMMARY AND CONCLUSION

With gold prices fluctuating and the real estate not being up to the mark, the individuals have found a good and lucrative investment option which can be done with as low as Rs 1000/- per month, which is a very negligible amount in today's world. The stock market has seen a steady growth and most of the share prices have been constant with an increase in the same.

Many small time investors are waiting to enter the stock market and test the waters. Since most of them will be first time investors, they will require knowledge about the market and also details of the companies which can be provided by the brokers, for a fee and if the small investor is given good advice then he/she may introduce many more clients to the broker who in turn may earn more, thereby making the situation a win- win one for the investor and also the broker. Hence, it is said that the time now is ripe for the stock market traders and also the investors as many people have decided to go for the pie share.

The stock brokers have seen an increase in the investment potential of the investors and there are many people who are entering the stock market trade and the last few years has seen an exponential increase in the people entering the stock broking trade. Hence in such a scenario, it is the duty of the stock broker to make the small investor aware

of the situation to see to it that the small investor is not affected by such a withdrawal.

In order to counter such a scenario, the current SEBI chief, Mr U K Sinha has urged the small investors and the middle class to invest more in the stock market as investing in the stock market and earning money in the stock exchange is not taboo anymore and the stock market as an investment option is still a very good option. It is estimated that even if a small percentage of the existing middle class invest in the stock market, the market will witness a surge of investment and may not require the investments made by the FDIs and the FIIs in the years to come.

In order to make this a possibility, wherein the middle class people are encouraged to invest in the stock market, the stock broker and the small investor has to work hand in hand and the stock broker needs to give the correct advice to the investor so that he can get many more people to the stock market.

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