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A STUDY ON BROKERAGE INCOME CONTRIBUTION BY INVESTORS

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Abstract

Stock broking is a service which gives retail and institutional investors the opportunity to trade shares. This stoke broking is done with the help of the stockbrokers who link the investors with the share market. Stockbrokers will trade shares both on exchange and over-the-counter, dependent on where they can find the best price and liquidity. Typically, a stock broking firm will charge commission on the trades it makes on a client's behalf, or a fee for retaining its services. The study focuses on improving the income of the brokers which is contributed by the investors. The primary data has been collected by questionnaire method. The collected data was analysed using chi square, ANOVA method. The analysis clearly stated that the income level is dependent on the trading done by investors. So if we increase the trading the income contributed by the investors increases and also if the client size of the investors would act as a major part in increasing the income of brokers. 0.2% on every trade is taken as the income of the brokers. As the result of the study made on improving the brokerage income by increasing the client size which is made possible by funding for clients, providing 3 in1account, publishing daily market research, providing easy access through modern technologies like mobile based trading platform, web based trading platform.

Keywords: *Stock brokerage, investors, NSE, BSE.*

Introduction

A market where buyers and sellers engage in trade of financial securities like bonds, stocks, etc. The buying/selling is undertaken by participants such as individuals and institutions. Capital markets help channelize surplus funds from savers to institutions which then invest them into productive use. Generally, this market trades mostly in long-term securities. Capital market consists of primary markets and secondary markets. Primary markets deal with trade of new issues of stocks and other securities, whereas secondary market deals with the exchange of existing or previously-issued securities. Another important division in the capital market is made on the basis of the nature of security traded, i.e. Stock market and bond market.

Capital markets are financial markets for the buying and selling of long-term debt or equity-backed securities. These markets channel the wealth of savers to those who can put it to long-term productive use, such as companies or governments making long-term investments. Capital markets are defined as markets in which money is provided for periods longer than a year. Financial regulators, such as the UK's Bank of England (BoE) or the U.S. Securities and Exchange Commission (SEC), oversee the capital markets in their jurisdictions to protect investors against fraud, among other duties. Modern capital markets are almost invariably hosted on computer-based electronic trading systems; most can be accessed only by entities within the financial sector or the treasury departments of governments and corporations, but some can be accessed directly by the public. There are many thousands of such systems, most serving only small parts of the overall capital markets. Entities hosting the systems include stock exchanges, investment banks, and government departments. Physically the systems are hosted all over the world, though they tend to be concentrated in financial centers like London, New York, and Hong Kong. A key division within the capital markets is between the primary markets and secondary markets. In primary markets, new stock or bond issues are sold to investors, often via a mechanism known as underwriting. The main entities seeking to raise long-term funds on the primary capital markets are governments (which may be municipal, local or national) and business enterprises (companies). Governments tend to issue only bonds, whereas companies often issue either equity or bonds. The main entities purchasing the bonds or stock include pension, hedge funds, sovereign wealth funds, and less commonly wealthy individuals and investment banks trading on their own behalf. In the secondary markets, existing securities are sold and bought among investors or traders, usually on an exchange, over-the-counter, or elsewhere. The existence of secondary markets increases the willingness of investors in primary markets, as they know they are likely to be able to swiftly cash out their investments if the need arises.

The share broking companies acts as an intermediate between the investors and the share market. Brokers help the investors to buy and sell the shares in the market, not only that but also they help the investors through providing financial strategies and tips for what shares to buy at what time and what shares to sell. The income of brokers totally depends on the investors; 0.2% of trading done by the investors is basically an income for the brokers.

More the investors more will be the profit for the company since the income is depended on the investor’s trade. Therefore it is very important for a broking company to have large size of clients (investors) .But it is more important that those investors trade often as the income depends on the trade. The profit of share Broking Company can be improved by attracting more investors and retention of existing investors and make. This can be done by providing different features like funding for clients, easy access through new technology, anytime support through toll free numbers and websites etc.

Regulations and schemes changes therefore in order to attract clients it is also important to be up to date with SEBI. This shows an uniqueness of the broking company which will attract more investors to trade.

Literature Review

This chapter will critically consider what has been researched and published which is relevant to the current study. It focuses on points of divergence and convergence among various authors, identifying the gaps and areas of further study.The Indian capital market has changed dramatically over the last few years. Changes have also been taking place in government regulations and technology. The expectations of the investors are also changing. The only inherent feature of the capital market, which has not changed is the 'risk' involved in investing in corporate securities. Managing the risk is emerging as an important function of both large scale and small-scale investors. Risk management of investing in corporate securities is under active and extensive discussion among academicians and capital market operators. Surveys and research analyses have been conducted by institutions and academicians on risk management. The mutual fund companies in India have conducted specific studies on the 'risk element' of investing in corporate securities.

Mitra.S.K." (2000) commented on the increasing volatility of the bourses, which forces an investor to shift away from the equity market. He observed that analysts profess to the investors the virtue of long-term time horizon for the equity investment. But sharp volatility has become a feature of the capital market worldwide, resulting in frequent, sharp, downward corrections. In this scenario it is proving difficult to convince the investors to think long-term. He opined that the risk of obsolescence and failure have increased enormously in the highly valued economy companies, resulting in huge loss on investments. Investors with long outlook are real losers in this new paradigm of stock market gambles. He argued that, in this scenario, investors are shifting away from the equity market to cash and debt. Long-term vision in the equity investments has given way to short term trading.

Ajay Jaiswal (2001) evaluated the implications of 'Equity Risk Premium'. He opined that investors look for a certain level of return for assuming the 'risk of equities volatile return'. This level can be measured through the equity risk premium. Equity risk premium is the sum of the dividend yield and earnings growth less current bond annual yield. He observed that the risk premium rose very sharply towards the end of the last decade. The expectations of the earnings growth had moved up dramatically since 1998. But in the last year we saw a fall of the long-term growth expectations. He opined that a downturn is associated with a fall in the profitability of the corporate sector. He argued that the equity investments are not for the weak hearted, as the equity holders cannot escape the impact of the movements in the capital market. We are headed for a period of lower returns to the investors. He concluded that the scaling down of the return expectations would reduce the chances of wild swings. And this would be better for the health of the bruised equity investors.

Gere1a.S.T. and Balsara.K.A.3' (2001) reviewed the risk management system at the Bombay Stock Exchange. They reported that the BSE has strengthened the risk management measures to maintain the market integrity. The introduction of the modified carry forward system, coupled with the BOLT (Bombay Online Trade) expansion to cities all over India has led to a significant increase in the liquidity and volumes at the exchange. As a consequence, the risk management function at the BSE has assumed greater importance. In order to maintain the market integrity and to avert payment defaults by the members, the exchange has strengthened its risk management system by taking the following measures:

1. All members are required to maintain the base minimum capital of Rs.10 lakh with the exchange.
2. As a risk management measure the exchange places trading restrictions on the members.
3. The exchange has prescribed a ceiling on the gross exposure of the members.
4. The exchange collects from the members, daily margin, additional volatility margin, incremental carry forward margin, etc.
5. The exchange has constituted a risk management committee to put in place a long-term risk management policy.

MeenakshiChaturvedi&ShrutiKhare(2012) revealed that most investor preferred Bank Depositsas their first choice of investment, secondly small saving scheme followed by the life insurance policies.

GiridhariMohanta & SathyaSwaroop Debasish(2011)states that people were ready to invest for meeting their financial, social and psychological need. But the investor always had a mindset of safety and security, higher capital gain, secured future, tax benefit, getting periodic return or dividends, easy purchase and meeting future contingency.

Statement of Problem

Brokers income depends on investors trade therefore the income of the broker is not stable. Hence the problem is to make the income stable. In order to make the brokers income stable it is important that the investors trade frequently but the problem is how to make the investors invest frequently. Client (investors) size is also a factor influencing the broker’s income. Hence the problem is to increase the client size and to attract new clients. Attracting new clients and retention of existing clients is also a problem for broking companies.

Need for the Study

By attracting more clients the client size of the broking company will maximize therefore the profitability of the company will increase. More the client size more will be the income for the brokers. Loyal clients. Improved and a stable income for the broking companies. Strong relationship between the broker and the client,

Objective of the Study

- To Study the brokerage income contribution by investors.
- To study wither the client size of a broking firm directly influence their income.
- To improve the income of broking firms.
- To attract new clients and retention of existing clients.

Hypotheses

H_0 = There is no significance relationship between the client size and the factors provided by the broking firm.

H_1 = There is a significance relationship between the client size and the factors provided by the broking firm.

H_0 = The client size of a company is not dependent on the client funding provided by the company.

H_1 = The client size of a company is dependent on the client funding provided by the company.

Sampling Plan

- **Population:** The entire aggregation of items from which samples can be drawn;"it is an estimate of the mean of the population." Broking firm is taken as the population in this research.
- **Sampling:** Items selected at random from a population and used to test hypotheses about the population. In this research, brokers are the sample units.
- **Sample size:** The sample size of a statistical sample is the number of observations that constitute it. The sample size of this research is taken as 50 i.e. fifty brokers from 50 different broking firms.
- **Sampling area:** The area from which the samples are been collected is known as sampling area. This research samples are collected from Chennai broking firms.
- **Sample period:** The period in which the samples are collected is known as sample period. The sample period for this research is from March 2016 – May 2016.

Sources and Tools for Data Collection

The data collected is a Primary Data with Analytical Tool of Research Design is used in the project. Primary and secondary data fall within the scope of statistics and can be used as part of a research method. The collected data may assist a company in measuring, assessing and discussing the results of data collection for whatever purposes the information is required. These is where the differences between the two become relevant as some companies need a direct approach and therefore use primary data sources whereas others need previously collected information - that is, secondary data - which they can apply to their own situation. "As a direct approach, primary data was collected via questionnaire".

Tools for Data Analysis

Percentage Analysis. Chi Square Test, ANOVA

Limitation of the Study

- Research covers broking firm only in Chennai.
- The accuracy and reliability of analysis depends on reliability of data collected from brokers through questionnaire.
- Result of analysis may be interpreted differently by different users.

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
provide funding for clients	Between Groups	2.366	3	.789	3.587	.021
	Within Groups	10.114	46	.220		
	Total	12.480	49			
type of funding provided	Between Groups	9.464	3	3.155	3.587	.021
	Within Groups	40.456	46	.879		
	Total	49.920	49			
provide portfolio system	Between Groups	2.588	3	.863	4.012	.013
	Within Groups	9.892	46	.215		
	Total	12.480	49			
provide trading tips and strategy	Between Groups	1.266	3	.422	1.779	.164
	Within Groups	10.914	46	.237		
	Total	12.180	49			
publish daily market research	Between Groups	1.591	3	.530	2.241	.096
	Within Groups	10.889	46	.237		
	Total	12.480	49			
provide customer support through tollfree number and website	Between Groups	1.539	3	.513	2.190	.102
	Within Groups	10.781	46	.234		
	Total	12.320	49			
provide modern technology for young generations	Between Groups	2.208	3	.736	3.290	.029
	Within Groups	10.292	46	.224		
	Total	12.500	49			
provide 3 in 1 account	Between Groups	.847	3	.282	1.187	.325
	Within Groups	10.933	46	.238		
	Total	11.780	49			

The above table explains the ANOVA test results very clearly. The various factors like funding for clients, portfolio system, provide trading tips and strategy, publish daily market research, provide customer support through tollfree number and website, provide modern technology for young generations, provide 3 in 1 account has been tested for variance. The calculated P value for: Provide funding for clients = 0.021, Types of funding provided = 0.021, Provide portfolio management system = 0.031, Provide modern technology for young generations = 0.029, As the significance value of all these factors are less than 0.05. Therefore H_0 for all the above mentioned factors is rejected. Hence, there a significance difference between the client size and the various factors which determine the income of the brokers.

Similarly, the P value for provide trading tips and strategy = 0.164, Publish daily market research = 0.096. Provide customer support through toll-free number and website = 0.102, Provide 3 in 1 account = 0.325. As the significance value of all these factors are more than 0.05. Therefore H_0 for all the above mentioned factors is accepted**.** Hence, there no significance difference between the client size and the mentioned factors which determine the income of the brokers.

Findings of the Study

- About 34% of share broking companies are member of NSE exchange only; 2%oof share broking companies are member of MCX exchange only and 64%of share broking companies are member of all the exchanges.
- Most 70% of share broking companies are direct members and 30%of share broking companies are franchise.
- Nearly 30%of share broking companies have a client size between 200-400; 18%of share broking companies have a client size between 400-800; 4%of share broking companies have a client size between 800-1000 and 48%of share broking companies have a client size above 1000.
- Only few 4% of share broking companies charges 0.1-0.2 as a broking charge and 96%of share broking companies charges 0.2-0.35 as a broking charge.
- About 32% of clients trade on stock derivatives only and 68% of clients trade on stock and currency derivatives.
- More than half 60% of share broking companies provide funding for clients and 40%of share broking companies do not provide funding for clients.
- 58%of share broking companies provide continuous funding for clients; 2%of share broking companies provide temporary funding for clients and 40%of share broking companies do not provide funding for clients.
- 62% of share broking companies provide portfolio system for clients and 38%of share broking companies do not provide portfolio system for clients.
- 76%of share broking companies provide trading tips and strategies for the clients and 24%of share broking companies do not provide.
- 58%of share broking companies publish daily market research and 42% of share broking companies do not publish market research.
- 64%of share broking companies provide support through toll free number and websites and 36%of share broking companies do not provide support through toll free number and website.
- 68%of share broking companies provide modern technology for young generations and 32%of share broking companies do not provide.
- 44%of share broking companies provide 3 in 1 account and 28% of share broking companies do not provide 3 in 1 account.
- 84%of share broking companies are aware of free demat account if investment is below 50000 and 16%of share broking companies are not aware of free demat account if investment is below 50000.

- 80%of share broking companies are aware of Rajiv Gandhi scheme and 20%of share broking companies are not aware of Rajiv Gandhi scheme.
- The client size of a company is also dependent on the client funding provided by the company.
- There is a significance difference between the client size andmost of the factors provided by the company.

Suggestions / Recommendation

The client size of the broking firm is directly influencing their income therefore it is very important to increase the client size of the broking firm. Funding for clients helps in attaining more investors hence providing funds for the investors will help the broking firm to gain more clients. Broking firms being aware of new schemes will help them to provide proper information to clients which will directly help in client retention process. A strong relationship between the clients and the brokers will help in attain loyal clients. Being a member of all the exchanges like NSE, BSE will help to cover large size of investors. Providing modern technology like mobile trading platform and web based trading platform will help in attracting young investors.

Conclusion

The study on brokerage income contribution by investors is done successfully. As the income of a broking firm is 0.2% of the amount traded by the client in market; therefore more the client size more trading will be done and more the trading more will be the income for the broking firms. Hence the client size of a broking firm directly influences their income. The income of a broking firm is directly depended on the client size therefore the income of a broking firm can be improved by increasing the client size. Providing various factors like – funding for clients, trading tips and investment strategies, client support through live chat and toll free numbers, modern technology like mobile trading platform will help the broking firm to attract new clients and the retention of existing clients.

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