

PROBLEMS AND PROSPECTS OF ONLINE SHARE TRADING PRACTICES IN INDIA

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The business of stock exchanges was originally done in mere two-and-half hours in the trading rings through open outcry system. An investor, wishing to trade, had to call his broker's office to place his order. In turn it is the duty of the broker to pass on the order to his man assigned on the trading ring. The broker's man would then go to the stock counter to go through the transaction, all the while jostling with a group of other sub-brokers who are also trying to trade on the counter. Innumerable difficulties were there in the system since the broker's man would have to revert to his office to consult with the client if the price quoted did not match the order. All these took place in an era where there was no proper communication system. In the absence of internet and business channels on television, the only way to obtain the live stock quotes was the stock brokers. The final closing price of a stock could be checked through the daily bulletin that was published every evening by the stock exchange.

Internet trading is a method of trading in securities whereby it is possible for the investors to buy and sell stocks through the internet. It is also called on-line trading; the trading takes place under the "Order Routing System" [ORS] through registered stock brokers on behalf of clients for execution of trades on stock exchange. Under this method of trading the information about securities, brokers, dealers, prices etc, are communicated through the official websites of concerned stock exchanges so as to facilitate buying and selling of securities.

Current developments are essentially converting off line practices to an online equivalent. The private investor who may have received a stock broker's report through the post and looked up share prices in the morning paper can access the information online with the current market price being available. The investor who might have made calculations about trends and valuations by hand can download the information from the web into a spreadsheet or a personal finance program that runs on their PC. That same private investor who usually to rings up a stock broker to buy or sell, a process that might take some time when the market is busy, can issue that same instruction online for immediate execution.

On – line share trading in India

Many Indian investors are logging into the internet to put through their stock market trades. The number of investors registered for online stock trading has raised three fold to 30 lakh, over the past two years. Online trades now account for about 40 percent of the daily turnover on the NSE, up from about 4 percent in 2004. According to brokerage industry estimates, ICICI Bank claims to have a 60.65 percent share of the market, with eight lakh users on ICICI direct, its online

trading platform. The democracy of online trading is the key factors why the retail investors prefer to transact over the internet their broker.

What makes the rise of the online investor in India is not a price that has fuelled the boom. Thanks to the news channel, volumes are growing faster in the non –metros, where transparency is low in offline trading. Such high channel migration has changed the broking landscape from what it was in the late 1990s. The days are gone where the customers were made to pay higher charges by small brokers, since they weren't aware of the market rates. Traditional brokers are now scrambling to scale up their online operations. This study is an attempt to evaluate the benefits and problems towards online share trading practices in Kanyakumari District.

Review of literature

David Whitely has started that the use of the internet is taking off among private investors in stocks and shares. The internet can make available to the private investors the minute information. The use of online brokerage services automates the process of buying and selling and hence allows a reduction of commission charges. Also the commodity being traded is intangible; the ownership of stocks and shares can be recorded electronically so that there is no requirement for physical delivery.

Antony Saunders and Marci's Million Cornett has stated that, the major stock markets currently start functioning at 9.30 a.m., Eastern standard time and closes at 4.00 p.m. Eastern standard time. Extended, hours trading involve any securities transaction that occurs outside these regular trading hours. Almost all extended hours trading are processed through computerized Alternative Trading System, [ATS], also known as Electronic Communications Network [ECNs]. ECNs are computerized systems that automatically match orders between buyers and sellers and serve as an alternative to traditional market making and floor trading. They are also the major vehicles for extended hours trading.

Rajagopalan, V, expressed the problem faced by him on online share trading. What he cannot stomach is how his ID number was interchanged with another client, and his account debited to pay for derivatives, while he did not order. Worse his scripts were sold to cover losses which he had not incurred. Luckily, the broker admitted his mistake and compensated him, but the episode has left Rajagopalan extremely chary of online trading.

Research objectives

The present study focuses with the following objectives

- To find out the benefits of online share trading
- To analyze the problem faced by online share traders
- To offer suggestion based on the study

Methodology

The study is both descriptive and analytical in nature. It is a blend of primary data and secondary data. The primary data has been collected personally by approaching the online share traders who are engaged in share market. The data are collected with a carefully prepared

questionnaire. The secondary data has been collected from the books, journals and websites which deal with online share trading.

Sampling design

The investigator has selected the purposive random sampling to collect data from the respondents. From the 13 blocks in Kanyakumari district, 4 blocks are purposively selected that is Kuzhithurai, Padmanabhapuram, Thiruvattar, and Munchirai. From the 4 blocks, 90 respondents were selected. The researcher has personally questioned all the respondents.

Tools of analysis

The data obtained from the investors was analyzed with the help of statistical tools which include Weighted Average Ranking method and Garrett Ranking method.

Data Analysis

Around 30 percent of the total respondents belong to the age group of 25 to 35 years. And 26 percent people belong to the age group of 35 to 45 years. Similarly, 23 percent are below 25 years age group. Whereas 12 percent people are from the age group of 45 to 55 years and only 9 percent is above 55 years. This shows that there are people from various age groups in the sample. Out of 90 respondents, 83 percent are male and 17 percent are females. 60 percent of the people are working in Private organizations, 17 percent are having their own business, whereas only 15 percent are government employees. 67 percent are married and 33 percent are unmarried in the collected sample. In the sample 72 percent have a monthly income in the range of Rs.10000 to Rs.20000, and 11 percent have income of each up to Rs.10000 and Rs.20000 to Rs.30000 respectively and only 6 percent are in the income group of above Rs.50000.

Online share trading offers many benefits to investors. Respondents were asked to give their opinion regarding the benefits based on 5 point scales. Benefits derived were analyzed using weighted average ranking method. Table 1 indicates that the main benefit derived out of online share trading is Wider choice with mean score 4.36. Second and third benefit for better value and source of information with mean score 4.05 and 3.84. The least benefits derived out of online share trading enables to know customer preference with the mean score 3.53.

The problem perception of the online share traders were analyzed with the help of Garrett's Ranking technique. The ranks thus obtained are converted into scores with the help of Garrett's table. For each problem, the scores of individual respondents are added together and divided by the total number of respondents whose scores are added. The mean score for all the problems is ranked and is exhibited in table 2.

It is inferred from table 3 that the major problem faced by online share traders is inadequate availability of technology with the mean score of 52.90. Second and third problems perceived by them are poor communication network, and more chances of fraud with mean score of 51.56 and 51.25. Risk of system failure and lack of transparency are the fourth and fifth problems perceived by the online share traders with the mean score of 50.87 and 50.75 and the least

problem perceived by them is lack of professional management and lack of sufficient information with the mean score 49.48 and 46.57.

Suggestions

With a view to increasing the effectiveness of online share trading, particular attention should be paid to the long – term strategy. The following suggestions can be a guided in this regard. Since the online share trading business depends upon customer service, technological knowhow, new innovations, and efficient management etc., the following measures in these areas have to betaken on priority basis to achieve success in online share trading business.

Inadequate technology is the major problem faced by online share traders. The Bombay Stock Exchange [BSE] and the National Stock Exchange [NSE] have recently developed ‘proprietary trading engines’ called ‘webex’ and ‘Dotex’ respectively. These engines will obviate the need for a broker to develop his own engine and thus, result in capital investment saving. However, a user can log on to these engines, use the website of the broker and trade electronically. These developments are, therefore, expected to give a strong fillip to the e-broking industry in India. Application of superior technology to clients will be a key determinant of success.

New trading mechanism can be formed to allow the trading of stocks in the world’s global companies. This will form a platform to allow companies with worldwide demand to experience 24 hours trading of their shares. This would be an innovative and a bold move and is expected to lead to a better price discovery on global basis.

Lack of professional management is the second major problem faced by the investors. The online share trading industries must develop new strategies for what the customers pursue. They must re-invest themselves in retail – life world where ‘service’ is the key differentiator. There is an urgent need for firms to place a new emphasis on customer relationship that combines selling with personal financial consultations to meet client’s specific needs. The household are investing less than 2 percent of their savings in shares and debentures. Motivating them to invest will widen the market for online share trading.

Conclusion

The stock exchanges in India, under the overall supervision of the regulatory authority, the Securities and Exchange Board of India (SEBI), provide a trading platform where buyers and sellers can meet to transact in securities. The trading platform provided by NSE is an electronic one and there is no need for buyers and sellers to meet at a physical location to trade. They can trade through the computerized trading screens available with the NSE trading members or the internet based trading facility provided by the trading members of NSE. Online trading empowers educated investors to make their own decision with close watch on market sensitivity by browsing through various sites. Besides, net trading assures achievement of objectives of securities regulation which are creation of efficient market to meet global requirements and investor’s protection.

Major hurdles for the growth of online stock trading are computer illiteracy, poor infrastructure, risk adverse attitude of investors etc. So with the growth of educated investors and support from SEBI, online trading is sure to grow faster. When one buys a share of a company, one would become a shareholder in that company. Equities (shares) have the potential to increase in value over time. Research studies have proved that the equity returns have outperformed the returns of most other forms of investments in the long term. Investors buy equity shares or equity based mutual funds because equities are considered the most rewarding, when compared to other investment options if held over a long duration. However, this does not mean all equity investments would guarantee similar high returns. Equities are high risk investments. Higher the risk, higher the potential returns; high risk also indicates that the investor stands to lose some or all his investments if prices move unfavorably. One needs to study equity markets and stocks in which investments are being made carefully before investing.

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Table 1

Online share trading Benefits

Sl. No	Preference	SA	A	N	DA	SDA	Total Score	Mean Score	Rank
1	Wider choice	42[210]	40[160]	6[18]	2[4]	-	392	4.36	I
2	Better value	25[125]	50[200]	10[30]	4[8]	1[1]	364	4.05	II
3	Unique gifting opportunity	15[175]	45[180]	17[51]	4[8]	9[9]	323	3.59	VII
4	Saves time	19[195]	40[160]	18[54]	6[12]	7[7]	328	3.65	V
5	Enable to know customer preference	25[125]	30[120]	10[30]	18[36]	7[7]	318	3.53	VIII
6	Source of information	27[135]	36[144]	15[45]	10[20]	2[2]	346	3.84	III
7	Inexpensive	25[125]	28[112]	19[57]	14[28]	4[4]	326	3.62	VI
8	Faster to complete	30[150]	31[124]	12[36]	14[28]	3[3]	341	3.79	IV

Table.2

Problems in online share trading

Sl.NO	Problems	I	II	III	IV	V	VI	VII	VIII	TOTAL
I.	Inadequate availability of technology	14	13	10	14	11	10	8	10	90
II.	Risk of system failure	15	8	13	9	10	11	12	12	90
III.	Lack or professional management	7	12	15	14	10	8	10	14	90
IV.	High transaction cost	12	12	8	10	12	14	13	9	90
V.	Lack of sufficient information	9	10	7	12	10	9	16	17	90
VI.	More chances of fraud	10	12	12	13	14	10	9	10	90
VII.	Poor communication network	11	14	11	9	13	13	10	9	90
VIII.	Lack of transparency	12	9	14	9	10	15	12	9	90
Total		90	90	90	90	90	90	90	90	720

Table: 3

Sl. No	Problems	Garrett's Score	Rank
1	Inadequate availability of technology	52.90	I
2	Risk of system failure	50.87	IV
3	Lack of professional management	49.48	VII
4	High Transaction cost	50.57	VI
5	Lack of sufficient information	46.57	VIII
6	More chances of fraud	51.25	III
7	Poor communication network	51.56	II
8	Lack of transparency	50.75	V