CHAPTER 7
FINDINGS AND RECOMMENDATIONS

As a logical offshoot of the study, the researcher has reached certain findings. The major findings are given below:

7.1. General Findings:

1. Majority of the stockbrokers (84 percent) in CSE are males, signifying their dominance in the brokerage industry.

2. A sizeable section of brokers belong to the age group of 41-50. Young talented people are not attracted to this profession.

3. Majority of brokers at CSE are graduates and just 8 percent constitute undergraduates.

4. Sixty percent of brokers belong to Ernakulam District and 13 percent of them belong to states outside Kerala.

5. Most of the brokers subscribe at least one business newspaper and a good number of them subscribe one or more business periodicals:

6. Most of the brokers are able to analyze financial statements and reports.

7. There is a positive relation between education level of brokers and their ability to analyze financial statements.
8. Majority of brokers are having primary market operations.

9. Most of the brokers (85 percent) who have primary market operations evaluate primary issues of shares on behalf of investors. Fifty one percent of them succeed in getting client acceptance of their evaluation.

10. Eighty percent of brokers at CSE are doing clients' business in addition to their own personal business.

11. Majority of brokers provide consultancy service to investors.

12. Brokerage rates have come down significantly from 2 percent to 0.5 percent or even less due to cut throat competition. The average rate of brokerage charged by brokers of CSE is one percent.

13. Equity research is in a nascent stage among brokers at CSE.

14. Brokers are not much interested in conducting economic analysis, industry analysis or company analysis.

15. Majority of brokers (66 percent) undertake budgetary analysis.

16. Fairly large number of brokers undertake transfer of shares on behalf of clients.

17. More than half of the brokers undertake custodial service of shares and stocks on behalf of investors.
18. Sixty-five percent of application forms of primary issues are distributed directly from the office of the brokers. Distribution through other modes like sub-broker route, newspaper insertion, banks etc constitute 35 percent.

19. Brokers generally are not much interested in attending seminars, symposia, investors' conference etc.

20. Majority of brokers follow double entry system of maintaining books of accounts.

21. Most of the brokers (82 percent) have computerized the entire system of activities.

22. Though brokers are aware of the compulsory filing of annual accounts to the exchange, all of them are not keenly observing it.

23. More than half of the brokers (58 percent) of CSE are risk neutrals, 30 percent are risk takers and 12 percent are risk averters.

24. Brokers try to reduce risk when they grow older.

25. There is a high negative correlation between age of brokers and their risk taking behaviour. Risk takers avoid risk with increase in age.

26. The education level of brokers and their risk bearing ability are closely related.
27. The financial resources of brokers are not adequate and they experience difficulty in obtaining loans from banks.

28. The risk bearing ability of brokers is not associated with their financial resources.

29. More than half of brokers (60 percent) speculate in stocks.

30. The speculative behaviour of brokers tends to fall with increase in age.

31. A sizeable number of brokers (64 percent) have experienced backing out by clients.

32. There is no association between default of brokers and backing out by clients.

33. Thirty percent of brokers have been declared defaulters for various reasons like non-payment of dues to the exchange, non-delivery of shares and not depositing the required margin money.

34. There is a strong inference that speculation can cause default of brokers.

35. Twenty-two percent of brokers have been in receipt of insider information.

36. The training facilities for brokers are inadequate.
37. Regarding margin requirements, 62 percent of brokers are of the opinion that the present margin system is fair and adequate while 32 percent hold the view that the margins are unfair and in excess.

38. Stiffer and tougher guidelines like capital adequacy norm, margin requirements etc have resulted in eroding the investible funds of brokers.

39. Most of the brokers (89 percent) fully comply with the code of conduct prescribed by SEBI.

40. About 26 percent of brokers have experienced dispute with other brokers for various reasons.

41. Arbitration proceedings at the CSE are cumbersome and tardy.

42. About 68 percent of brokers are not satisfied with the working of Investors' Grievance cell.

43. Broker-client relationship is cordial at CSE.

44. There is an increased tendency of the brokers to merge and go corporate. The number of corporate members has risen from 30 to 52 at present.

45. Most of the brokers at CSE are players with a small resource base and size of operations.
46. The CSE membership card which once ruled around Rs.45lakh has plummeted to Rs.5lakhs or less.

47. Many members have opted for broking profession leaving other lucrative opportunities.

48. A good number of brokers are operating as sub-brokers under NSE brokers.

49. Many members have left broking profession in search of greener pastures.

50. Though there are 242 companies listed at CSE, most of these shares are not even traded.

51. Many companies fail to pay the listing fees to the exchange.

52. The certificate course introduced by the Stock Exchange on ‘Capital Market operations in India’ though beneficial to brokers and investors has been discontinued.

53. The CSE started a publication known as Sock Journal to air brokers’ views on various issues affecting stock market and their own interests. It has also been discontinued.

54. With erosion of liquidity and shrinkage of trade volume, infrastructure facility created at CSE remains unutilized or underutilized.
55. Stockbrokers of CSE have not adjusted to the changing business environment and they have failed in restructuring their business as in the case of firms and companies.

56. Many of the brokers are not seriously pursuing their profession and have failed in bringing in professionalism in brokerage service.

57. Brokerage industry in Kerala does not generate regular income and the broking profession is less dignified.

7.2. Specific findings related to problems of stock-broking.

The researcher has identified the following specific problems associated with brokerage industry in Kerala.

7.2.1 Lack of adequate resources

About 44 percent of the brokers in CSE suffer from inadequacy of financial resources. A major part of the available fund has been used for meeting capital adequacy requirement and for creating the necessary infrastructural facilities leaving little money for trading activities.
7.2.2. Rampant Speculation

Speculative trading is at a high level in Kerala. About 60 percent of brokers indulge in speculative trading. Many of them have met with heavy losses and are on the brink of financial ruin. Speculative trading also degenerates into market manipulation.

7.2.3. Poor liquidity

Though 242 companies have listed their shares in CSE, trading is limited to a few blue chip stocks. The volume of trade also has come down significantly.

7.2.4. Backing out by clients

There has been unexpected and continuous decline in share prices. Many investors back out from the deal causing serious financial damage to brokers. Clients also back out when they exceed their financial limit. The survey has revealed that 64 percent of brokers have experienced the risk of backing out by clients.

7.2.5. Default of brokers

Brokers often take huge positions in the market unmindful of their financial limit. When they fail to honour their commitments to the exchange they are declared defaulters. Frequent defaults shake the confidence of investors.
7.2.6. Insider trading

Brokers of Kerala are also not free from the malaise of insider trading. It is difficult to prove insider trading activity of brokers.

7.2.7. Lack of training facilities

Training facilities are inadequate for brokers of Kerala. Despite the fact that most of the brokers are highly educated, many of them lack technical skill and expertise. Stock-broking is altogether a different ball game requiring a different set of information, knowledge and skills.

7.2.8. Intensive Competition

With increasing competition, the brokerage rates in Kerala has fallen from 2 percent to 0.5 percent or even less than that. Brokers are of the opinion that they can even manage with lower brokerage if it could be made up by large volume.

7.2.9. Infrastructure bottlenecks

There are brokers who have not made a switch to computerization of accounting system. Adoption of electronic system of recording can save time and improve efficiency.
7.2.10. Seasonal nature of activity

Stock market operations are highly seasonal in nature. If boom conditions are prevailing in the market, investors and brokers are jubilant and there is a lot of activity taking place in the market. In the bearish phase of the market, investors disappear, volume of trades dwindles and the most affected are the broking fraternity.

7.2.11. Irrational behaviour

Often brokers and investors behave in an irrational manner losing sanity in evaluating companies for their performance. They are influenced by sentiments rather than rationality.

7.2.12. Lack of professionalism

Brokers of Kerala lack professional attitude and approach when they deal with investors and other agencies. Very little effort is made to improve their competitiveness. In a complex and dynamic global competitive environment, adaptive capability is the key to survival and growth.

7.2.13. Poor public Image about broking profession

It is not all well and good with the broking profession. The public holds a poor image about the broking profession in Kerala.
7.2.14. Lack of Government Patronage

The much needed Government patronage is lacking in this profession. There are various bodies working for investors’ protection whereas there is none for brokers’ protection. No monetary benefits by way of grants or aids are given by the Government.

7.2.15. Recurrent crises

Security scams are taking place in the country’s stock market with disturbing regularity. In 1992, there was the Harshad Mehta led security crisis. Today, another broker, named Ketan Parekh has caused considerable damage to the market resulting in unprecedented fall in the prices of securities. Recurrent crises have severely affected the credibility and safety of the market. Excessive speculation in the Bombay Stock Exchange led by a few brokers is the main cause of the stock market debacle of March-April 2001.

The leading broker, Ketan Parekh had financed all his transactions with money drawn from banks. An Ahmedabad-based co-operative bank known as Madhavpura Mercantile Co-operative Bank was hand-in-glove with Ketan Parekh. The bank issued a pay order amounting to Rs. 137 crore in favour of Ketan Parekh which was encashed at Bank of India. The issue of pay orders, without actual cash behind it, was the fraud by the banking system. Now several scandals-
share price rigging, insider trading, banker-broker nexus, promoter-broker collusion etc- have come to the surface. Now Ketan Parekh is facing criminal investigation along with Bank officials for charges of fraud and conspiracy. The arrested Ketan Parekh has recently admitted to the CBI that he had received funds from two well-known companies for financing his operations. If this allegation is proved, the promoter broker collusion also will be established. The Bombay Stock Exchange President, Mr. Anand Rathi resigned for alleged insider trading charges.

Recurrent scams are always a threat to the orderly and safe functioning of the market. As a consequence, investors have lost faith in the market and have deserted it. The role of SEBI as market regulator is put to test. To prevent continuous fall in share prices, short selling has been banned completely. The volume of trade has fallen. Payment crisis and brokers committing suicide have been reported frequently. The activities of the brokers are under constant scrutiny and examination. They are no longer in the good book of the investors.

All these speak volumes of the deep-seated malaise in the capital market environment. No one is spared from its severe impact. The regulator, exchanges, brokers and investors are all badly affected. Though SEBI has taken a number of severe measures to bring stability to the market, it has not met with success. In this connection, it may be appropriate to put forward some suggestions.

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There is always conflict of interest when stock trading and administration of the exchange go hand in hand. The brokers should not have any control over the administration of the exchange. The administration of the exchange should be entrusted to professionals in the model of NSE. The SEBI must take proactive measures to control excessive speculation and manipulation. Stringent measures in the event of crisis only aggravate the problem. The regulator must search and enquire about the abnormal and unprecedented increase in the price of shares. In the year 1999, the price of technology based and media company shares sky-rocketed in the market. But no meaningful enquiry was conducted. Moreover, the surveillance department in the exchanges should be activated. This department must closely monitor price movement of scrips, volume of scrips traded, abnormal change in brokers’ positions, violation of trading restrictions, margin requirements and limit by brokers. Monitoring report should be sent to the SEBI very frequently. The need of the hour is to create faith and confidence of the public in the stock market. For that the regulatory bodies, stock exchanges, brokers and other intermediaries must combine their efforts to restore the much wanting confidence, dignity and return to normalcy of the stock markets.
7.3. Recommendations

The brokerage industry in Kerala, which has been gathering pace steadily for many years since its inception, finds it difficult to survive at present. The diagnosis of the stock brokers' problems are not beyond comprehension. The broking community of Kerala has to survive and become economically independent and this noble task has to be initiated by all concerned - the members of the exchange, the CSE, the regulatory bodies and the Government. The task has to be taken very seriously without any loss of time.

7.3.1. Measures to be initiated by the members themselves:

a) To generate awareness among investors about stock market trading and the various instruments used in the stock market, conduct seminars, workshops, technical sessions etc more vigorously.

b) Investors shall be chosen as clients after ensuring their credit worthiness and financial integrity.

c) A vigorous drive is required on the part of brokers to bring back small investors to the market. For this purpose investor education programmes must be undertaken.
d) It is a festering problem for investors that there is non-availability of ready-to-use reliable information. The brokers should supply ready-to-use vital information to investors that would help in increasing clientele.

e) Investors are ready to pay a premium for brokers they can depend on for their professionalism. Brokers must improve their competitiveness and put in professional inputs to render the best possible service to investors.

f) Investment advises by brokers should be based on full information and has to be made after a critical assessment of various types of risks.

g) It is proposed that brokers should keep professional integrity and must not disclose the business details of his client to others.

h) The brokers must show high standards of transparency and disclosure while dealing on behalf of investors.

i) The brokers must deal with high integrity and commitment in the brokerage services industry by providing the highest quality service to all their clients big or small, irrespective of their standing.

j) The members must stay away from rumours and gossips.
k) It is suggested that members should provide value-added services like consultancy, investigative reporting, portfolio management etc. to investors without hesitation.

l) For the healthy growth of the stock market, brokers should not make reckless and misleading stock recommendations to clients.

m) It is suggested that brokers should adopt strict financial standards in dealings and must improve transparency.

n) Speculation has become an addiction to many brokers. They should keep away from speculation and concentrate on clients' business.

o) Brokers should move away from insider trading, price rigging and such other malpractices.

p) The members of CSE have not adjusted to the changing business environment. They should wake up from their slumber and be far more ready to embrace changes.

7.3.2. Measures to be initiated by CSE

The exchange can undertake responsibilities to the welfare of its members. To make the broking profession more dynamic and efficient, the exchange should take the following steps:
a) The exchange must build up a proper database covering its profile, companies listed, securities traded, educating the user keeping abreast of the developments taking place in the capital markets.

b) The CSE should focus its attention to improve organizational efficiency and human skill development.

c) A full time training centre must be started to conduct advanced courses on financial services that will also help in earning extra income to the exchange.

d) The CSE publication called stock Journal, which was discontinued, should be launched again. It would help the members to express their opinion on various issues affecting the stock market.

e) The membership of the CSE must be open to public that would help to bring in a corporate structure of organization and management.

f) The collection of listing fees from the companies listed on the CSE must be enforced.

g) To compensate for the decline in revenues it is suggested that the CSE should use their infrastructure for other uses such as conducting short-term courses on stock market operations, computer training courses, project presentation and appraisals etc. To ensure a minimum level of service to investors, the CSE
must monitor complaints from investors regarding the poor service rendered by brokers. This would do good to the brokers in the long run.

h) To improve liquidity in CSE, market making for all the shares should be promoted. Market makers can undertake the obligation of giving two-way quotes of security prices.

i) Listing and trading of debt securities should be promoted in the exchange that would be useful to investors and the exchange. The exchange could be benefited by increased income from listing and trading of debt securities.

j) Arbitration proceedings at CSE should be speeded up. It is also suggested that no director or committee member should participate in decision making or adjudication in a case where he or she is an interested party.

k) Brokers have a large number of grievances that need to be attended to. For this purpose it is important to have a built in mechanism to mitigate their grievances and problems. There are various forums and cells working for the protection of investors whereas there is none for brokers' protection. A brokers' grievance cell must be formed in line with investors' grievance cell.
7.3.3. Measures to be initiated by SEBI

The plight of regional stock exchanges and its member brokers is not beyond comprehension. The SEBI as the regulator of securities can do much more to activate the regional stock exchanges. A few suggestions are given below:

a) To bring succour to the ailing small stock exchanges, the SEBI should take steps to compulsorily list small cap companies (companies of size 5 crores or below) on small exchanges.

b) At present SEBI permits companies to voluntarily delist from stock exchanges. Since such an act results in declining sources of income by way of listing fees of stock exchanges, SEBI shall not allow companies to voluntarily delist from stock exchanges.

c) SEBI must ensure a central system of collecting listing fees from companies to be distributed among all the exchanges.

d) To eliminate price variations across exchanges a uniform settlement system should be adopted as quickly as possible all over the exchanges.

e) Kerb trading, though officially banned by SEBI, is still practiced in Calcutta and Ahmedabad. Severe penalties should be meted out to kerb traders.
f) The minimum public offer for qualifying for listing must be enhanced from the present level of 25 percent to 40 percent of issued capital of the company. This measure would also improve liquidity.

g) To contain excessive speculation, rolling settlement should be adopted as quickly as possible all over the exchanges.

h) To curb unhealthy speculation among brokers and operators the disclosure norms of the companies regarding mergers, acquisitions, alliances etc should be made more transparent and speedy.

i) The eligibility criteria of brokers should be raised to graduation as against the existing minimum eligibility criteria of 12 years of education.

j) There is need for SEBI to induct qualified experts who actually understands the ins and outs of the market to administer and execute its regulatory functions.

k) The SEBI's actions are often reactive and not proactive. Eternal vigilance is essential to guard against insider trading, price rigging, cartelisation and such other malpractices that are hampering the growth of the capital market.

l) Several policy decisions and guidelines have been served by SEBI in recent times. If one unfolds the history behind each guideline it will be found that they were introduced to correct one problem
without deliberating on its side effects. Brokers must be consulted when policy decisions are taken by the regulator.

7.3.4. Measures to be initiated by the Government

Bold and visionary reforms on the part of the Government will go a long way in accelerated improvement of investment climate and subsequent revival of the brokerage industry. The Government should take the following initiatives to support the brokers and the exchange:

a) Brokers play the role of intermediation in the capital market. The Government should recognize this and come forward with suitable measures to provide the brokers the much needed relief in the form of grants or aids to help them prosper in their business.

b) The Government must take steps to do away with the prevailing service tax levied on brokerage by the central excise department and turnover tax imposed by SEBI.

c) Members are often arranging finance for their market operations at high rates of interest from private moneylenders. It is suggested that banks should be allowed to finance their business deals subject to strict norms with respect to exposure limits and margins.

d) The Indian stock market has been plagued by extreme volatility. Long-term funds like pension and provident funds should be
promoted for investment in equities, which would provide the needed stability to the market.

e) Insurance being a hedge against a bad tomorrow, it is proposed to introduce centralized insurance cover for brokers.

f) A pension scheme should be introduced by the Government to provide security and hassle-free life at the age of their retirement. This would bring in the much lacking dignity and status to the profession.

7.4. Conclusion

The present study could not cover all the aspects of stock-broking in Kerala. Still, there are certain gray areas. Brokers take enormous risks while they execute their functions and activities. Risk appraisal and management is a significant and vital part of this branch of financial services sector. Hence a study on risk management of brokers could be of much help to the present as well as future generation of brokers.

The strains and tension involved in stock-broking is enormous. There is scope for further studies in the line of stress management of stockbrokers.
It is clear that financial intermediaries as market participants have a crucial role to play in the efficient functioning of the stock market. Obviously, a thriving and vibrant broking system requires a well-developed financial structure with multiple intermediaries operating in markets with different risk profiles. Organizational efficiency, human skill development and technological upgradation are the key pre-requisites for managing the risk return trade-offs. Brokers could have done much more on the content and quality of brokerage services at different levels to suit the contemporary demands of a rapidly expanding stock market. Now that brokers have access to the best techniques and tools as a result of reforms, they shall not be critical and dogmatic about reforms in the stock market because that is a phenomenon, which is inescapable. It offers excellent opportunities and challenges. They should make the best use of the opportunities created by reforms and fight competitively the problems affecting them.

Brokerage industry in Kerala has enormous scope for growth and achievement. But this can be possible only if elements like trust, guidance and regulation are incorporated in the stock market. There is also the need for reorientation and refocusing of activities of all members of the broking community. This apart, Government co-
operation, participation from banks and financial institutions are also needed. The brokers of CSE will certainly find themselves on the road to rapid growth and development achieved through hard work and grit.

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