CHAPTER 5

ROLE AND SUPPORT EXTENDED BY INTERMEDIARIES IN DERIVATIVE TRADING: SITUATION PREVALENT TO SOUTH KERALA
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ROLE AND SUPPORT EXTENDED BY INTERMEDIARIES IN DERIVATIVE TRADING: SITUATION PREVALENT TO SOUTH KERALA

Generally all stock market investments are subject to market risk and investors are reluctant in bearing risk; especially with an instrument which they are not very much aware off. The retail investors’ usually would like to choose familiar investment avenues. In order to familiarize any investment option; proper imitativness from competent authorities are crucial. The present level of support for derivative trading provided by intermediaries in South Kerala is generally confined to secretarial assistance and advisory services. Here the intermediaries like broking firms, SEBI, Govt. agencies; organized exchanges etc. can play a prominent role for popularizing derivatives as a risk management tool among retail investors. The evaluation support service provided by intermediaries among retail investors would help to identify the synergies existing/ lacking for F&O trading at firm level.

5.1. Data & Tools

For evaluating the effectiveness of support extended from intermediaries; an opinion poll has been organized among 200 executives those who are working in stock trading arena. This survey extensively covers top level executives like Associate vice presidents, Regional & Territory Managers of various broking firms, Middle level managers and Branch managers of broking firms located in south Kerala and lower level employees like marketing executives, back office assistants, stock dealers etc. A separate questionnaire was used for the data collection purpose and the same has been validated after conducting a pilot study among 20 executives. Annexure 2 of this research work will give a detailed outlook on the instrument used for survey among executives.

The following tools were used for data analysis;

- Chi- square Test.
- Multivariate Analysis of Variance.

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- Friedman K Statistics.
- Multi-Dimensional Scaling Alscal Model.
- Paired Sample T test etc.

5.2. Expert’s opinion on existing scenario prevalent for derivative education and trading

The opinion of executives working in various positions was collected in order to evaluate existing derivative trading practices on different notions. The support extended at industry level, organizational level, staff level, partner level and customer level for the smooth conduct of derivative trading was evaluated on the basis of opinion expressed by 200 working executives. Out of the total respondents 44 of them working with top level positions, 71 middle level executives and 85 were lower level executives. The scenario was statistically analyzed using Multivariate Analysis of variance techniques.

Figure 5.1: Position of the Experts

Source: Primary Data

5.2.1. Experts’ opinion on existing scenario at Exchange level

Experts opinion on three variables viz. products offered, volume traded and revenue generated at exchange level was evaluated. Initially mean score experts opinion considered together to evaluate the scenario prevailing at exchange level. Multivariate Analysis of Variance (MANOVA) is considered to be a suitable measure for evaluating the above scenario; and for performing the same the following hypotheses were formulated.
H0: There is no significant variation in the evaluation of experts based on their position about support extended at exchange level for F&O trading.

H1: There exists significant variation in the evaluation of experts based on their position about support extended at exchange level for F&O trading.

Table 5.1: Exchange level evaluation of derivative trading- Experts opinion (Multivariate Test)

<table>
<thead>
<tr>
<th>Effect</th>
<th>Value</th>
<th>F</th>
<th>Hypothesis df</th>
<th>Error df</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept Pillai’s Trace</td>
<td>.993</td>
<td>8757.605*</td>
<td>3.000</td>
<td>195.000</td>
<td>0.000*</td>
</tr>
</tbody>
</table>

Source: Primary Data

*At 5% level of significance

It may be observed that the mean score of the responses of the experts do vary statistically significant at 5 per cent level of significance in the Multivariate tests (F value of Pillai’s Trace 8757.60 with p=.000<.05).

Table 5.2: Industrial level evaluation of derivative trading- Experts opinion Tests of Between-Subjects Effects

<table>
<thead>
<tr>
<th>Source</th>
<th>Dependent Variable</th>
<th>Type I Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corrected Model</td>
<td>Exchange Level-Products Offered</td>
<td>198.585*</td>
<td>2</td>
<td>99.292</td>
<td>327.126</td>
<td>0.000*</td>
</tr>
<tr>
<td></td>
<td>Exchange Level-Volume Traded</td>
<td>194.142*</td>
<td>2</td>
<td>97.071</td>
<td>239.701</td>
<td>0.000*</td>
</tr>
<tr>
<td></td>
<td>Exchange Level-Revenue Generated</td>
<td>243.390*</td>
<td>2</td>
<td>121.695</td>
<td>435.971</td>
<td>0.000*</td>
</tr>
</tbody>
</table>

Source: Primary Data

*At 5% level of significance

Further all these variables considered independently to check whether the mean score on experts’ opinion obtained is statistically significant. As p value 0.000 <0.05 indicates the mean score of experts opinion on derivative trading scenario at exchange level (between subject effects) is statistically significant at 5% level of significance.
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below table will give a clear picture on the experts opinion on derivative trading based on their respective position.

Table 5.3: Position wise evaluation on derivative trading at Exchange level

<table>
<thead>
<tr>
<th>Dependent Variable</th>
<th>Position of the respondent</th>
<th>Mean</th>
<th>Std. Error</th>
<th>95% Confidence Interval</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchange Level- Products Offered</td>
<td>Top level</td>
<td>4.750</td>
<td>.083</td>
<td>4.586</td>
</tr>
<tr>
<td></td>
<td>Middle level</td>
<td>3.197</td>
<td>.065</td>
<td>3.068</td>
</tr>
<tr>
<td></td>
<td>Lower Level</td>
<td>2.141</td>
<td>.060</td>
<td>2.023</td>
</tr>
<tr>
<td>Exchange Level- Volume Traded</td>
<td>Top level</td>
<td>4.682</td>
<td>.096</td>
<td>4.493</td>
</tr>
<tr>
<td></td>
<td>Middle level</td>
<td>2.986</td>
<td>.076</td>
<td>2.837</td>
</tr>
<tr>
<td></td>
<td>Lower Level</td>
<td>2.094</td>
<td>.069</td>
<td>1.958</td>
</tr>
<tr>
<td>Exchange Level- Revenue Generated</td>
<td>Top level</td>
<td>4.636</td>
<td>.080</td>
<td>4.479</td>
</tr>
<tr>
<td></td>
<td>Middle level</td>
<td>3.183</td>
<td>.063</td>
<td>3.059</td>
</tr>
<tr>
<td></td>
<td>Lower Level</td>
<td>1.788</td>
<td>.057</td>
<td>1.675</td>
</tr>
</tbody>
</table>

Source: Primary Data

While considering the opinion of experts on the basis of their position the top level executives were on the opinion that there exists excellent support from the exchange for derivative education and trading. The mean scores obtained on the opinion of top level executives were 4.750, 4.682 and 4.636 respectively. The high mean scores indicate that the top level executives are very much happy with the existing scenario prevailing at the exchanges for derivative trading.
5.2.2. Experts’ opinion on existing scenario at Firm level

A firm can promote derivative trading by way of organizing effective promotional programs, providing timely secretarial support to customers, providing education programs to investors, giving proper orientation for staff, ensuring excellent infrastructure etc. This section is intended to analyze the experts’ opinion on the aforesaid criteria at their respective firm. The expert’s opinion on the above criteria is further analyzed with the following assumptions (MANOVA test).

\[ H0: \text{There is no significant variation in the evaluation of experts based on their position about support extended at firm level for F&O trading.} \]

\[ H1: \text{There exists significant variation in the evaluation of experts based on their position about support extended at firm level for F&O trading.} \]

**Table 5.4: Organizational level evaluation of derivative trading- Experts opinion (Multivariate Test)**

<table>
<thead>
<tr>
<th>Effect</th>
<th>Value</th>
<th>F</th>
<th>Hypothesis df</th>
<th>Error df</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept Pillai’s Trace</td>
<td>.994</td>
<td>6017.908*</td>
<td>5.000</td>
<td>193.000</td>
<td>0.000*</td>
</tr>
</tbody>
</table>

*Source: Primary Data

*5% level of significance

As F value of Pillais trace is 6017.908 with p=0.000 is less than 0.05 indicates that the mean score on responses is statistically significant at 95% confidence level. In other words we can say that the mean score responses of experts working at different position is statistically significant when we are considering these variables together.

Further for validating this models the mean score responses on these variables considered independently.
Table 5.5: Organizational level evaluation of derivative trading- Experts opinion
Tests of Between-Subjects Effects

<table>
<thead>
<tr>
<th>Source</th>
<th>Dependent Variable</th>
<th>Type I Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corrected Model</td>
<td>Firm Level-Promotional Strategies</td>
<td>115.088</td>
<td>2</td>
<td>57.544</td>
<td>145.138</td>
<td>0.000*</td>
</tr>
<tr>
<td></td>
<td>Firm Level-Secretarial support</td>
<td>185.887</td>
<td>2</td>
<td>92.944</td>
<td>193.280</td>
<td>0.000*</td>
</tr>
<tr>
<td></td>
<td>extended</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Firm Level-Education program</td>
<td>201.397</td>
<td>2</td>
<td>100.699</td>
<td>246.253</td>
<td>0.000*</td>
</tr>
<tr>
<td></td>
<td>for investors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Firm Level-Orientation program</td>
<td>232.802</td>
<td>2</td>
<td>116.401</td>
<td>297.060</td>
<td>0.000*</td>
</tr>
<tr>
<td></td>
<td>for staffs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Firm Level-Infrastructural</td>
<td>188.412</td>
<td>2</td>
<td>94.206</td>
<td>251.530</td>
<td>0.000*</td>
</tr>
<tr>
<td></td>
<td>facilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary Data

*At 5% level of significance

The mean score responses of executives working at different level considered independently and it is found that as p value 0.000 is much lower than 0.05. Further in can be inferred that experts’ opinion on existing scenario for derivative trading at firm level is statistically significant at 5% level of significance.

Further expert’s opinion has been evaluated on the basis of their respective position by ascertaining mean score obtained on various statements. This analysis has been done with the objective of identifying the opinion difference among executives working in different position.
Table 5.6: Position wise evaluation on derivative trading at Firm level

<table>
<thead>
<tr>
<th>Dependent Variable</th>
<th>Position of the respondent</th>
<th>Mean</th>
<th>Std. Error</th>
<th>Lower Bound</th>
<th>Upper Bound</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm Level- Promotional Strategies</td>
<td>Top level</td>
<td>4.364</td>
<td>.095</td>
<td>4.176</td>
<td>4.551</td>
</tr>
<tr>
<td></td>
<td>Middle level</td>
<td>3.169</td>
<td>.075</td>
<td>3.022</td>
<td>3.316</td>
</tr>
<tr>
<td></td>
<td>Lower Level</td>
<td>2.376</td>
<td>.068</td>
<td>2.242</td>
<td>2.511</td>
</tr>
<tr>
<td>Firm Level- Secretarial support extended</td>
<td>Top level</td>
<td>4.477</td>
<td>.105</td>
<td>4.271</td>
<td>4.683</td>
</tr>
<tr>
<td></td>
<td>Middle level</td>
<td>2.972</td>
<td>.082</td>
<td>2.810</td>
<td>3.134</td>
</tr>
<tr>
<td></td>
<td>Lower Level</td>
<td>1.953</td>
<td>.075</td>
<td>1.805</td>
<td>2.101</td>
</tr>
<tr>
<td>Firm Level- Education program for investors</td>
<td>Top level</td>
<td>4.455</td>
<td>.096</td>
<td>4.264</td>
<td>4.645</td>
</tr>
<tr>
<td></td>
<td>Middle level</td>
<td>2.845</td>
<td>.076</td>
<td>2.695</td>
<td>2.995</td>
</tr>
<tr>
<td></td>
<td>Lower Level</td>
<td>1.824</td>
<td>.069</td>
<td>1.687</td>
<td>1.960</td>
</tr>
<tr>
<td>Firm Level- Orientation program for staffs</td>
<td>Top level</td>
<td>4.432</td>
<td>.094</td>
<td>4.246</td>
<td>4.618</td>
</tr>
<tr>
<td></td>
<td>Middle level</td>
<td>3.014</td>
<td>.074</td>
<td>2.868</td>
<td>3.161</td>
</tr>
<tr>
<td></td>
<td>Lower Level</td>
<td>1.647</td>
<td>.068</td>
<td>1.513</td>
<td>1.781</td>
</tr>
<tr>
<td>Firm Level- Infrastructural facilities</td>
<td>Top level</td>
<td>4.386</td>
<td>.092</td>
<td>4.204</td>
<td>4.568</td>
</tr>
<tr>
<td></td>
<td>Middle level</td>
<td>3.056</td>
<td>.073</td>
<td>2.913</td>
<td>3.200</td>
</tr>
<tr>
<td></td>
<td>Lower Level</td>
<td>1.871</td>
<td>.066</td>
<td>1.740</td>
<td>2.001</td>
</tr>
</tbody>
</table>

Source: Primary Data

From the above it can be easily understood that the top level executives are on the opinion that their respective firms are offering adequate facilities for derivative trading (obtained mean scores were high in all these respect). The middle level executives were took a neutral stand but the lower level executives were not happy with the support extended at firm level. The lower level executives are expected to maintain a close
interaction with the customers and while considering their opinion the broking firms in South Kerala need to have a significant advancement in all the evaluated criteria's.

5.2.3. Experts' opinion on existing scenario at staff level

The supporting staffs working at different broking firms can play a vital role in derivative education and trading. Qualified and competent dealers are an essential prerequisite for derivative trading. At the same time top management should give adequate freedom to the supporting staffs for decision making. The experts opinion on the above aspects evaluated to know the mean response put forth at different levels. MANOVA test was performed to analyze the above scenario where;

*H0: There is no significant variation in the evaluation of experts based on their position about support extended at staff level for F&O trading.*

*H1: There is significant variation in the evaluation of experts based on their position about support extended at staff level for F&O trading.*

Table 5.7: Staff level evaluation of derivative trading- Experts opinion (Multivariate Test)

<table>
<thead>
<tr>
<th>Effect</th>
<th>Value</th>
<th>F</th>
<th>Hypothesis df</th>
<th>Error df</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>.975</td>
<td>1925.723&lt;sup&gt;a&lt;/sup&gt;</td>
<td>4.000</td>
<td>194.000</td>
<td>0.000*</td>
</tr>
</tbody>
</table>

*Source: Primary Data

At 5% level of significance

MANOVA test results shows that the mean score of experts' opinion on derivative trading at staff level do vary statistically significant at 5% level of significance as F value of Pillai’s trace 1925.723 with p value 0.000 < 0.05.

Mean score of all the variables considered independently to see whether any agreement existing between experts on service offered at staff level for derivative trading.
Table 5.8: Staff level evaluation of derivative trading- Experts opinion Tests of Between-Subjects Effects

<table>
<thead>
<tr>
<th>Source</th>
<th>Dependent Variable</th>
<th>Type I Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corrected Model</td>
<td>Staff Level-Qualification of staffs</td>
<td>134.361\textsuperscript{a}</td>
<td>2</td>
<td>67.181</td>
<td>132.719</td>
<td>0.000*</td>
</tr>
<tr>
<td></td>
<td>Staff Level- Quality of service given</td>
<td>208.728\textsuperscript{b}</td>
<td>2</td>
<td>104.364</td>
<td>170.689</td>
<td>0.000*</td>
</tr>
<tr>
<td></td>
<td>Staff Level- Skill and Competency</td>
<td>193.005\textsuperscript{c}</td>
<td>2</td>
<td>96.502</td>
<td>183.876</td>
<td>0.000*</td>
</tr>
<tr>
<td></td>
<td>Staff Level- Freedom for decision making</td>
<td>75.143\textsuperscript{d}</td>
<td>2</td>
<td>37.571</td>
<td>54.984</td>
<td>0.000*</td>
</tr>
</tbody>
</table>

Source: Primary Data

At 5% level of significance

The variables were considered independently to test whether the mean score obtained is statistically significant. It is found that the mean score obtained between subject effects at staff level are statistically significant (as p value 0.000 < 0.05 at 5% of significance level).

Table 5.9: Position wise evaluation on derivative trading at staff level

<table>
<thead>
<tr>
<th>Dependent Variable</th>
<th>Position of the respondents</th>
<th>Mean</th>
<th>Std. Error</th>
<th>95% Confidence Interval</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Lower Bound</td>
</tr>
<tr>
<td>Staff Level-Qualification of staffs</td>
<td>Top level</td>
<td>2.114</td>
<td>.107</td>
<td>1.902</td>
</tr>
<tr>
<td></td>
<td>Middle level</td>
<td>3.113</td>
<td>.084</td>
<td>2.946</td>
</tr>
<tr>
<td></td>
<td>Lower Level</td>
<td>4.212</td>
<td>.077</td>
<td>4.060</td>
</tr>
</tbody>
</table>

Continued in Page No. 172...
Table 5.9 Continued

<table>
<thead>
<tr>
<th>Staff Level- Quality of service given</th>
<th>Top level</th>
<th>.118</th>
<th>1.268</th>
<th>1.732</th>
</tr>
</thead>
<tbody>
<tr>
<td>Middle level</td>
<td>3.113</td>
<td>.93</td>
<td>2.930</td>
<td>3.296</td>
</tr>
<tr>
<td>Lower Level</td>
<td>4.176</td>
<td>.085</td>
<td>4.009</td>
<td>4.344</td>
</tr>
<tr>
<td>Staff Level- Skill and Competency</td>
<td>Top level</td>
<td>1.750</td>
<td>1.535</td>
<td>1.965</td>
</tr>
<tr>
<td>Middle level</td>
<td>3.085</td>
<td>.086</td>
<td>2.915</td>
<td>3.254</td>
</tr>
<tr>
<td>Lower Level</td>
<td>4.294</td>
<td>.079</td>
<td>4.139</td>
<td>4.449</td>
</tr>
<tr>
<td>Staff Level- Freedom for decision making</td>
<td>Top level</td>
<td>2.273</td>
<td>2.027</td>
<td>2.518</td>
</tr>
<tr>
<td>Middle level</td>
<td>3.032</td>
<td>.098</td>
<td>2.849</td>
<td>3.236</td>
</tr>
<tr>
<td>Lower Level</td>
<td>3.847</td>
<td>.090</td>
<td>3.670</td>
<td>4.024</td>
</tr>
</tbody>
</table>

*Source: Primary Data*

It is found that the top level executives were not happy with the level of support extended by the staffs for derivative trading (as lowest mean scores obtained). The lower level executives expressed an opinion that the level of service rendered by staffs are admirable in South Kerala (with highest mean scores of 4.212, 4.176, 4.29 and 3.847 obtained respectively). Form the analysis it is clear that there exist a clear difference of opinion between top level and lower level executives with respect to the quality of service rendered by the staffs.

5.2.4. Experts’ opinion on existing scenario for derivative trading at partner level

Different stakeholders like SEBI, RBI, Commercial banks etc. can be considered as vital partners for facilitating education about derivatives and its application; and creating necessary provisions for financial assistance to retail investors. These partner level institutions play a key role in the Indian financial market. SEBI and other regulators can initiate different programs at investors’ level to educate about derivatives. The banks and financial institutions can support investors by ensuring funds by way of loans. This section is intended to analyze the expert’s opinion on the
support services extended from partner level institutions for derivative segment. Here MANOVA is used test validity of expert’s opinion on the below mentioned hypotheses.

H0: There is no significant variation in the evaluation of experts based on their position about support extended at partner level for F&O trading.

H1: There is significant variation in the evaluation of experts based on their position about support extended at partner level for F&O trading.

**Table 5.10: Partner level evaluation of derivative trading- Experts opinion**  
(Multivariate Test)

<table>
<thead>
<tr>
<th>Effect</th>
<th>Value</th>
<th>F</th>
<th>Hypothesis df</th>
<th>Error df</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>Pillai’s Trace</td>
<td>.979</td>
<td>2992.712(^a)</td>
<td>3.000</td>
<td>195.000</td>
</tr>
</tbody>
</table>

*Source: Primary Data*

*At 5% level of significance*

While considering the opinion of experts working in different position together; it is found that the mean score obtained do signifies statistically at 5% level of significance. Where F value of Pillai’s Trace 2992.712 with p=0.000<0.05 at 95% confidence level.

**Table 5.11: Partner level evaluation of derivative trading- Experts opinion Tests of Between-Subjects Effects**

<table>
<thead>
<tr>
<th>Source</th>
<th>Dependent Variable</th>
<th>Type I Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corrected Model</td>
<td>Partner Level- SEBI/Exchange initiated programs</td>
<td>159.638(^a)</td>
<td>2</td>
<td>79.819</td>
<td>231.711</td>
<td><strong>0.000(^*)</strong></td>
</tr>
<tr>
<td></td>
<td>Partner Level- Tieup with Financial institutions for arranging funds for investors</td>
<td>80.708(^b)</td>
<td>2</td>
<td>40.354</td>
<td>108.467</td>
<td><strong>0.000(^*)</strong></td>
</tr>
<tr>
<td></td>
<td>Partner Level- counseling to investors by experts from govt. agencies</td>
<td>252.316(^c)</td>
<td>2</td>
<td>126.158</td>
<td>407.167</td>
<td><strong>0.000(^*)</strong></td>
</tr>
</tbody>
</table>

*Source: Primary Data; *At 5% level of significance*
After considering the experts opinion on the above variables independently; the mean scores between subject effects are statistically significant at 95% confidence level (p values 0.000< 0.05). Hence it is clear that the opinions of experts on service rendered by partner level institutions are different.

Table 5.12: Position wise evaluation on derivative trading at Partner level

<table>
<thead>
<tr>
<th>Dependent Variable</th>
<th>Position of the respondent</th>
<th>Mean</th>
<th>Std. Error</th>
<th>95% Confidence Interval</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Partner Level- SEBI/ Exchange initiated programs</strong></td>
<td>Top level</td>
<td>4.136</td>
<td>.088</td>
<td>3.962</td>
</tr>
<tr>
<td></td>
<td>Middle level</td>
<td>2.986</td>
<td>.070</td>
<td>2.849</td>
</tr>
<tr>
<td></td>
<td>Lower Level</td>
<td>1.835</td>
<td>.064</td>
<td>1.710</td>
</tr>
<tr>
<td><strong>Partner Level- Tieup with Financial institutions for arranging funds for investors</strong></td>
<td>Top level</td>
<td>2.909</td>
<td>.092</td>
<td>2.728</td>
</tr>
<tr>
<td></td>
<td>Middle level</td>
<td>2.634</td>
<td>.072</td>
<td>2.491</td>
</tr>
<tr>
<td></td>
<td>Lower Level</td>
<td>1.471</td>
<td>.066</td>
<td>1.340</td>
</tr>
<tr>
<td><strong>Partner Level- Counseling to investors by experts from govt. agencies</strong></td>
<td>Top level</td>
<td>4.295</td>
<td>.084</td>
<td>4.130</td>
</tr>
<tr>
<td></td>
<td>Middle level</td>
<td>2.986</td>
<td>.066</td>
<td>2.856</td>
</tr>
<tr>
<td></td>
<td>Lower Level</td>
<td>1.435</td>
<td>.060</td>
<td>1.316</td>
</tr>
</tbody>
</table>

*Source: Primary Data*

Top level executives are on the opinion that support extended by partner level institutions for derivative trading are exceptional while comparing with the opinion executives working in other positions. This conclusion is arrived on the basis that preference will be arranged on the basis of the respective mean score obtained. The executives working at lower level are on the opinion that the partner level support is inadequate.
5.2.5. Experts’ opinion on existing scenario at Customer level

The experts opinion about F&O customers evaluated in the context of investors knowledge, seeking advice from experts, frequency of monitoring contract, maintaining margin money and their ability to learn from experience. This process was done to check is there any difference in opinion existed between experts working in different positions.

H0: There is no significant variation in the evaluation of experts based on their position about support extended at customer level for F&O trading.

H1: There exists significant variation in the evaluation of experts based on their position about support extended at customer level for F&O trading.

Table 5.13: Customer level evaluation of derivative trading- Experts opinion  
(Multivariate Test)

<table>
<thead>
<tr>
<th>Effect</th>
<th>Value</th>
<th>F</th>
<th>Hypothesis df</th>
<th>Error df</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>.992</td>
<td>4581.220a</td>
<td>5.000</td>
<td>193.000</td>
<td>0.000*</td>
</tr>
</tbody>
</table>

Source: Primary Data

*At 5% level of significance

The mean score of opinion about investors by the executives working in different position is statistically significant at 5% level of significance (Where F value of Pillai’s trace obtained a score of 4581.22 with p value of 0.000< 0.05).

Table 5.14: Customer level evaluation of derivative trading- Experts opinion Tests of Between-Subjects Effects

<table>
<thead>
<tr>
<th>Source</th>
<th>Dependent Variable</th>
<th>Type I Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corrected</td>
<td>Customer Level-Knowledge in trading process</td>
<td>112.377a</td>
<td>2</td>
<td>56.189</td>
<td>147.348</td>
<td>0.000*</td>
</tr>
</tbody>
</table>

Continued in Page No. 176...
Table 5.14 Continued...

| Customer Level- Seeking timely advice from experts for selecting contracts | 194.901<sup>b</sup> | 2 | 97.450 | 291.408 | 0.000* |
| Customer Level- Frequency of monitoring their contract position | 192.241<sup>c</sup> | 2 | 96.120 | 226.736 | 0.000* |
| Customer Level- Maintaining margin money | 213.365<sup>d</sup> | 2 | 106.682 | 250.746 | 0.000* |
| Customer Level- Ability to learn from the previous experience | 148.184<sup>e</sup> | 2 | 74.092 | 230.237 | 0.000* |

Source: Primary Data

*At 5% level of significance

The variables with respect to expert opinion on investors evaluated separately and it found that the mean score obtained independently on the aforesaid is statistically significant at 5% level of significance (as p values of all variables obtained are mathematically less than 0.05).

Table 5.15: Position wise evaluation on derivative trading at customer level

<table>
<thead>
<tr>
<th>Dependent Variable</th>
<th>Position of the respondent</th>
<th>Mean</th>
<th>Std. Error</th>
<th>95% Confidence Interval</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Level- Knowledge in trading process</td>
<td>Top level</td>
<td>4.273</td>
<td>.093</td>
<td>4.089</td>
</tr>
<tr>
<td></td>
<td>Middle level</td>
<td>3.169</td>
<td>.073</td>
<td>3.024</td>
</tr>
<tr>
<td></td>
<td>Lower Level</td>
<td>2.318</td>
<td>.067</td>
<td>2.186</td>
</tr>
<tr>
<td>Customer Level- Seeking timely advice from experts for selecting contracts</td>
<td>Top level</td>
<td>4.205</td>
<td>.087</td>
<td>4.033</td>
</tr>
<tr>
<td></td>
<td>Middle level</td>
<td>2.972</td>
<td>.069</td>
<td>2.836</td>
</tr>
</tbody>
</table>

Continued in Page No.177...
Table 5.15 Continued...

<table>
<thead>
<tr>
<th>Customer Level-</th>
<th>Lower Level</th>
<th>Top level</th>
<th>Middle level</th>
<th>Lower Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency of monitoring their contract position</td>
<td>1.671</td>
<td>4.273</td>
<td>3.085</td>
<td>1.765</td>
</tr>
<tr>
<td></td>
<td>.063</td>
<td>.098</td>
<td>.077</td>
<td>.071</td>
</tr>
<tr>
<td></td>
<td>1.547</td>
<td>4.079</td>
<td>2.932</td>
<td>1.625</td>
</tr>
<tr>
<td></td>
<td>1.794</td>
<td>4.466</td>
<td>3.237</td>
<td>1.904</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Customer Level-</th>
<th>Lower Level</th>
<th>Top level</th>
<th>Middle level</th>
<th>Lower Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintaining margin money</td>
<td>4.409</td>
<td>4.409</td>
<td>3.042</td>
<td>1.741</td>
</tr>
<tr>
<td></td>
<td>.098</td>
<td>.098</td>
<td>.077</td>
<td>.071</td>
</tr>
<tr>
<td></td>
<td>4.215</td>
<td>4.215</td>
<td>2.890</td>
<td>1.602</td>
</tr>
<tr>
<td></td>
<td>4.603</td>
<td>4.603</td>
<td>3.195</td>
<td>1.881</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Customer Level-</th>
<th>Lower Level</th>
<th>Top level</th>
<th>Middle level</th>
<th>Lower Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability to learn from the previous experience</td>
<td>4.273</td>
<td>4.273</td>
<td>3.056</td>
<td>2.035</td>
</tr>
<tr>
<td></td>
<td>.086</td>
<td>.086</td>
<td>.067</td>
<td>.062</td>
</tr>
<tr>
<td></td>
<td>4.104</td>
<td>4.104</td>
<td>2.924</td>
<td>1.914</td>
</tr>
<tr>
<td></td>
<td>4.441</td>
<td>4.441</td>
<td>3.189</td>
<td>2.157</td>
</tr>
</tbody>
</table>

Source: Primary Data

The mean score obtained with respect to the opinion of top level executives are statistically high while comparing with the opinion of other level employees. From this it can be inferred that the top level executives are on the opinion that the investors having sufficient knowledge and skill for derivative trading. The middle level executives somewhat agree with the opinion of top level even though they took a neutral stand. The lower level employees are on the opinion that the customers are not possessing sufficient knowledge and skill for derivative trading.

5.3. Experts’ favorite analytical measure for selecting F&O contract

Five different variables considered to find experts preferred mechanism for selecting and F&O contract. The variables considered are economy- Industry- Companywide factors, Historical price movements, general market information, wild guesses and other methods. The opinion of all category of experts are listed in the below mentioned table.
Table 5.16: Experts’ favorite analytical measure for selecting F&O contract

<table>
<thead>
<tr>
<th>Position</th>
<th>Economy-Industry-Company-factors</th>
<th>Historical price movements</th>
<th>General market information</th>
<th>Wild guess</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top level</td>
<td>Count 11</td>
<td>16</td>
<td>11</td>
<td>0</td>
<td>6</td>
<td>44</td>
</tr>
<tr>
<td></td>
<td>% 25.0%</td>
<td>36.4%</td>
<td>25.0%</td>
<td>.0%</td>
<td>13.6%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Middle level</td>
<td>Count 12</td>
<td>20</td>
<td>27</td>
<td>0</td>
<td>12</td>
<td>71</td>
</tr>
<tr>
<td></td>
<td>% 16.9%</td>
<td>28.2%</td>
<td>38.0%</td>
<td>.0%</td>
<td>16.9%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Lower Level</td>
<td>Count 16</td>
<td>29</td>
<td>26</td>
<td>1</td>
<td>13</td>
<td>85</td>
</tr>
<tr>
<td></td>
<td>% 18.8%</td>
<td>34.1%</td>
<td>30.6%</td>
<td>1.2%</td>
<td>15.3%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Total</td>
<td>Count 39</td>
<td>65</td>
<td>64</td>
<td>1</td>
<td>31</td>
<td>200</td>
</tr>
<tr>
<td></td>
<td>% 19.5%</td>
<td>32.5%</td>
<td>32.0%</td>
<td>.5%</td>
<td>15.5%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: Primary Data

Around 32.5% of the executives choose historical price movements as an important criterion for F&O contract selection out of this 36.4% are top level executives. Only 0.5% of the executives select contract on the basis of wild guess. General market information considered to be the second best criteria for all categories of respondents with a count of 32%. Economy-Industry-Company analysis is another mechanism used before F&O investment as 19.5% would like to favor this as an important criteria.

For the above scenario the following assumptions were formulated to test the goodness of fit between position of the respondents and their contract selection method;
Chapter 5

H0: there is no significant association exist between the experts’ position and their contract selection mechanism.

H1: there exists significant association between the experts’ position and their contract selection mechanism.

Table 5.17: Chi-Square Tests between position of respondents & contract selection method

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>4.705*</td>
<td>8</td>
<td>0.789*</td>
</tr>
</tbody>
</table>

Source: Primary Data

*At 5% level of significance

Further, the chi-square test of independence shows that the value of chi-square is not significant at 5 per cent level of significance, as the value of chi-square is 4.705 with p=0.789>.05. Therefore it is concluded that there is no association between the position of the experts and their contract selection method.

5.4. Concern of executives’ regarding extending consultation service

Before selecting a derivative contract the investors have a provision for consulting about the same with experts. From the analysis it is inferred that more than 99.5% of the experts are on the opinion that the investors should consult with them before going for F&O investment.

Where the following hypothesis were formulated

H0: the position of the respondent and their concern regarding consultation service is not statistically significant.

H1: the position of the respondent and their concern regarding consultation service is statistically significant.
Table 5.18: Chi-Square Tests between position of respondents & concern for consultation

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>1.360</td>
<td>2</td>
<td>0.507*</td>
</tr>
</tbody>
</table>

*Source: Primary Data

*At 5% level of significance

From chi-square test a value of 1.360 obtained at 5% level of significance with a p value of 0.507. As p value 0.507 >0.05 we can conclude that there is no significant association existing between the position of the respondents and their concern for extending consultation.

5.5. Executives’ preferred information source for F&O trading

The information about profitable derivative contracts can be obtained from different sources viz. tips from parent firm, experts’ opinion from TV/ Newspaper, Experience from previous trading, influence from colleagues etc. The mean values of all these responses were obtained in order to identify the expert’s highest preferred source of information. Friedman test is used on the logic that highest rank preference will be given to the lowest mean value.

Table 5.19: Experts rank preference on information sources

<table>
<thead>
<tr>
<th>Source of information</th>
<th>Mean Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tips from parent firm</td>
<td>2.80</td>
</tr>
<tr>
<td>Experts opinion from TV/ Newspaper</td>
<td>2.69</td>
</tr>
<tr>
<td>Experience from previous trading</td>
<td>1.37</td>
</tr>
<tr>
<td>Influence from colleagues</td>
<td>3.15</td>
</tr>
</tbody>
</table>

*Source: Primary Data

Majority of the experts working in different position would like to use their previous trading experience for the selection of a suitable derivative contract (lowest mean value of 1.37 obtained). The second rank can be given to experts’ opinion from...
TV/ Newspaper with a mean value of 2.69. The least preference goes to influence from colleagues as the highest mean score 3.15 obtained for this variable. The above rank preference can be validated with Friedman Chi-square statistics and hypotheses are generated with the following assumptions.

**H0:** There is no significant difference on the rank preference of experts with respect to source of information for F&O trading.

**H1:** There is significant difference on the rank preference of experts with respect to source of information for F&O trading.

Table 5.20: Friedman chi-square test on experts rank preference on information sources

<table>
<thead>
<tr>
<th></th>
<th>200</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>200</td>
</tr>
<tr>
<td>Chi-Square</td>
<td>218.100</td>
</tr>
<tr>
<td>df</td>
<td>3</td>
</tr>
<tr>
<td>Asymp. Sig.</td>
<td>0.000*</td>
</tr>
</tbody>
</table>

**Source: Primary Data**

*At 5% level of significance*

Friedman chi-square test results 218.100 with a p value of 0.000 <0.05 shows that the mean rank preference of all category of experts are statistically significant at 5% level of significance.

5.6. Experts’ preference on Financial Derivatives and its Combination

Multi-Dimensional Scaling Alscal model has been used to identify experts’ preference towards financial derivatives and its combination. The opinion of top level, middle level and lower level executive evaluated together in order to identify the most significant combination suggest by experts. For further validating MDS stress value (0.21934) has compared with RSQ (0.72991). As stress value is much lower than RSQ this model can be validated for this purpose.
Chapter 5

Table 5.21: Iteration history of Experts Preference on Derivatives and its combination

<table>
<thead>
<tr>
<th>Iteration</th>
<th>S-stress</th>
<th>Improvements</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.30503</td>
<td>0.04379</td>
</tr>
<tr>
<td>2</td>
<td>0.26124</td>
<td>0.00569</td>
</tr>
<tr>
<td>3</td>
<td>0.25554</td>
<td>0.00017</td>
</tr>
<tr>
<td>4</td>
<td>0.25537</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary Data

The above table will indicate the iteration history of the variables. RSQ values are the proportion of variance of the scaled data (disparities) in the partition (row, matrix, or entire data) which accounted for by their corresponding distances (Stress values are Kruskal’s stress formula 1).

Table 5.22: Expert’s preference on financial derivatives and its combination (MDS)

<table>
<thead>
<tr>
<th>Derivatives and its combination</th>
<th>Dimensions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Index based Options</td>
<td>2.1461</td>
</tr>
<tr>
<td>Index based Futures</td>
<td>1.8456</td>
</tr>
<tr>
<td>Equity based Futures</td>
<td>0.6331</td>
</tr>
<tr>
<td>Equity based Options</td>
<td>0.0325</td>
</tr>
<tr>
<td>Combination of equity shares and index based options</td>
<td>-1.2047</td>
</tr>
<tr>
<td>Combination of equity shares and index based futures</td>
<td>-0.9831</td>
</tr>
<tr>
<td>Combination of equity shares and futures of equity shares</td>
<td>-0.7641</td>
</tr>
<tr>
<td>Combination of equity shares and options of equity shares</td>
<td>0.0737</td>
</tr>
<tr>
<td>Combination of two or more options</td>
<td>-0.7186</td>
</tr>
<tr>
<td>Combination of two or more futures</td>
<td>-1.0610</td>
</tr>
</tbody>
</table>

Source: Primary Data

Customer Preference towards Financial Derivatives with reference to South Kerala Market
From MDS it is clear that the experts working in all level of management prefers index based options on one dimension and combination of equity shares and index based futures on another dimension with highest coefficient of 2.1461 and 1.2362 obtained respectively. In other words we can say that experts always would like to suggest index based derivative instruments as an effective hedging tool rather than equity based instruments.

Figure 5.2: Experts preference on Derivatives (Euclidean distance model)

Source: Primary Data

Euclidean distance model will give a detailed representation of the data in two different dimensions. Figure No. 5.2 highlighting the expert’s preference on derivatives and its combination. Here variable 5.a (Index based Options) and variable 5.f (combination of equity shares and index based futures) located at a sizeable distance.
5.7. Strategies for attracting more funds toward F&O segment

Experts rank preference on selected strategies for attracting more funds towards F&O segment was analyzed using Friedman test. Seven different strategies considered and the highest rank will be given to the lowest mean score.

Table 5.23: Experts rank preference on strategies for attracting more funds towards F&O Segment

<table>
<thead>
<tr>
<th>Strategies for attracting fund towards F&amp;O Segment</th>
<th>Mean Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attracting investors from cash segment through dealers</td>
<td>1.90</td>
</tr>
<tr>
<td>Broker initiated tie up with banks / financial institutions for funding</td>
<td>4.68</td>
</tr>
<tr>
<td>Effective promotional programs at firm level</td>
<td>2.65</td>
</tr>
<tr>
<td>Offering attractive commission/incentives</td>
<td>4.66</td>
</tr>
<tr>
<td>Organizing special risk management courses for investors</td>
<td>4.74</td>
</tr>
<tr>
<td>Influencing investors through successful players in F&amp;O segment</td>
<td>2.82</td>
</tr>
<tr>
<td>Special program in collaboration with govt.agencies or leading institutions</td>
<td>6.56</td>
</tr>
</tbody>
</table>

Source: Primary Data

From the analysis it can be inferred that the highest rank goes to the strategy of attracting more investors from cash segment through dealers (mean value is 1.90). The next rank preference of the experts goes to effective promotional activities at firms' level. The experts are least bothered about the strategy of organizing special program in collaboration with govt. agencies or leading institutions for attracting more funds towards F&O segment (highest mean score of 6.56 obtained). The above rank preferences were further validated with Friedman Chi-square statistics.
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H0: There is no significant difference between the rank preferences of experts on fund accumulation strategies.

H1: There is significant difference between the rank preferences of experts on fund accumulation strategies.

Table 5.24: Friedman Chi-square Test Statistics on strategies for attracting more funds

<table>
<thead>
<tr>
<th>N</th>
<th>200</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Square</td>
<td>668.475</td>
</tr>
<tr>
<td>do</td>
<td>6</td>
</tr>
<tr>
<td>Asp. Sig.</td>
<td>.000</td>
</tr>
</tbody>
</table>

Source: Primary Data

Further validity of the rank preference can be assessed with Friedman chi-square test. The experts rank preference is statistically significant at 5% level of significance with a Friedman chi-square value of 668.475 (Where p value 0.000<0.05).

5.8. Strategies for managing existing Customer Base

In order to identify the most suitable strategies for managing existing customer base five different variables identified These variables are customer education before derivative trading, providing timely expertise advise, frequent monitoring the contract position, counseling in case of failure and arranging financial assistance from internal and external sources. Apart from this the customers were classified in to experienced and inexperienced customers in the context of derivative trading. An experienced customer here refers those who have sufficient experience in trading with derivative instruments and inexperienced customers are those who have less than one year of trading experience with derivatives.
Table 5.25: Paired Samples Statistics of mean score on strategies for managing customer base

<table>
<thead>
<tr>
<th>Pair 1</th>
<th>Educating them properly before entering in to contract <em>(Experienced)</em></th>
<th>1.0200</th>
<th>200</th>
<th>.17248</th>
<th>.01220</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Educating them properly before entering in to contract <em>(Inexperienced)</em></td>
<td>1.8450</td>
<td>200</td>
<td>.36281</td>
<td>.02565</td>
</tr>
<tr>
<td>Pair 2</td>
<td>Providing timely expertise advice <em>(Experienced)</em></td>
<td>1.0250</td>
<td>200</td>
<td>.15652</td>
<td>.01107</td>
</tr>
<tr>
<td></td>
<td>Providing timely expertise advice <em>(Inexperienced)</em></td>
<td>1.1150</td>
<td>200</td>
<td>.31982</td>
<td>.02261</td>
</tr>
<tr>
<td>Pair 3</td>
<td>Monitoring contract position frequently <em>(Experienced)</em></td>
<td>1.1100</td>
<td>200</td>
<td>.31367</td>
<td>.02218</td>
</tr>
<tr>
<td></td>
<td>Monitoring contract position frequently <em>(Inexperienced)</em></td>
<td>1.1300</td>
<td>200</td>
<td>.33715</td>
<td>.02384</td>
</tr>
<tr>
<td>Pair 4</td>
<td>Counsel them in case of failures <em>(Experienced)</em></td>
<td>1.1750</td>
<td>200</td>
<td>.38092</td>
<td>.02694</td>
</tr>
<tr>
<td></td>
<td>Counsel them in case of failures <em>(Inexperienced)</em></td>
<td>1.1200</td>
<td>200</td>
<td>.32578</td>
<td>.02304</td>
</tr>
<tr>
<td>Pair 5</td>
<td>Arranging financial assistance from internal/ external sources <em>(Experienced)</em></td>
<td>1.8050</td>
<td>200</td>
<td>.39719</td>
<td>.02809</td>
</tr>
<tr>
<td></td>
<td>Arranging financial assistance from internal/ external sources <em>(Inexperienced)</em></td>
<td>1.1500</td>
<td>200</td>
<td>.35797</td>
<td>.02531</td>
</tr>
</tbody>
</table>

Source: Primary Data

The experts are on the judgment that the total customers have to be separated on the basis of their experience. The inexperienced investors can be retained through
implementing strategies like providing proper orientation before F&O trading, frequent monitoring of contract positions and giving timely expertise advice (highest mean values of 1.845, 1.130 and 1.115 obtained respectively). In the case of experienced investors the executives suggested the following strategies viz. arranging counseling for the investors who has suffered marginally huge losses and arranging financial assistance from internal/ external sources for F&O trading. The above strategies are designed on the bases of mean score obtained from the response of experts working in stock trading field. Paired sample T-test is a powerful tool to examine the statistical significance of the above mean scores. In view of the above the following hypothesis were generated

**H0:** There is no significant difference existed on the customer retention strategies suggested by experts based on investors experience in F&O trading.

**H1:** There is significant difference existed on the customer retention strategies suggested by experts based on investors experience in F&O trading.

**Table 5.26: Paired Samples Test on strategies for managing customer base**

<table>
<thead>
<tr>
<th>Paired Differences</th>
<th>95% Confidence Interval of the Difference</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
<th>Lower</th>
<th>Upper</th>
<th>t</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pair 1</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educating them properly before entering in to contract</td>
<td>-.8250</td>
<td>.39389</td>
<td>.02785</td>
<td>-.8799</td>
<td>-.7700</td>
<td>-29.62</td>
<td>199</td>
<td>.000*</td>
</tr>
<tr>
<td><strong>Pair 2</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Providing timely expertise advice</td>
<td>-.0900</td>
<td>.36409</td>
<td>.02575</td>
<td>-.1407</td>
<td>-.0392</td>
<td>-3.496</td>
<td>199</td>
<td>.001*</td>
</tr>
</tbody>
</table>

Continued in Page No. 188...
Table 5.26 Continued

<table>
<thead>
<tr>
<th>Pair 3</th>
<th>Monitoring contract position</th>
<th>.0200</th>
<th>.48037</th>
<th>.03397</th>
<th>-.0869</th>
<th>.04698</th>
<th>-.589</th>
<th>199</th>
<th>.557*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pair 4</td>
<td>Counsel them in case of failures</td>
<td>.05500</td>
<td>.52282</td>
<td>.03697</td>
<td>-.0179</td>
<td>.12790</td>
<td>1.488</td>
<td>199</td>
<td>.138*</td>
</tr>
<tr>
<td>Pair 5</td>
<td>Arranging financial assistance from internal/external sources</td>
<td>.65500</td>
<td>.49720</td>
<td>.03516</td>
<td>.58567</td>
<td>.72433</td>
<td>18.630</td>
<td>199</td>
<td>.000*</td>
</tr>
</tbody>
</table>

Source: Primary Data

*At 5% level of significance

Further it can be inferred that the mean scores of opinion obtained from experts with respect to Pair 1 (Educating them properly before entering into contract), Pair 2 (Providing timely expertise advice) and pair 5 (Arranging financial assistance from internal/external sources) are statistically significant at 95% confidence level as p value <0.05. While considering opinion expressed by experts on Pair 3 (Monitoring contract position) and Pair 4 (Counsel them in case of failures); it can be inferred that the mean scores obtained are not statistically significant at 5% level of significance (where p values are much higher than 0.05). From the above it can be easily inferred that frequent monitoring of contract position and specialized counseling are equally important for all kind of investors irrespective of their experience in F&O trading.

5.9. Revenue growth expected in Derivative segment through new business model

Different strategies and measures suggested by experts working in different positions in order to attract more revenue towards derivative segment. After implementing these strategies the growth in revenue expected by experts are highlighted in the below table.
Table 5.27: Revenue growth expected in Derivative segment (experts opinion)

<table>
<thead>
<tr>
<th>Position of the respondent</th>
<th>Revenue expected from implementing a new business model</th>
<th>Below 5%</th>
<th>Between 5%-10%</th>
<th>Between 10%-20%</th>
<th>Above 20%</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top level</td>
<td>Count</td>
<td>0</td>
<td>13</td>
<td>15</td>
<td>16</td>
<td>44</td>
</tr>
<tr>
<td></td>
<td>% within Position</td>
<td>.0%</td>
<td>29.5%</td>
<td>34.1%</td>
<td>36.4%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Middle level</td>
<td>Count</td>
<td>5</td>
<td>21</td>
<td>24</td>
<td>21</td>
<td>71</td>
</tr>
<tr>
<td></td>
<td>% within Position</td>
<td>7.0%</td>
<td>29.6%</td>
<td>33.8%</td>
<td>29.6%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Lower Level</td>
<td>Count</td>
<td>9</td>
<td>21</td>
<td>24</td>
<td>31</td>
<td>85</td>
</tr>
<tr>
<td></td>
<td>% within Position</td>
<td>10.6%</td>
<td>24.7%</td>
<td>28.2%</td>
<td>36.5%</td>
<td>100.0%</td>
</tr>
<tr>
<td>Total</td>
<td>Count</td>
<td>14</td>
<td>55</td>
<td>63</td>
<td>68</td>
<td>200</td>
</tr>
<tr>
<td></td>
<td>% within Position</td>
<td>7.0%</td>
<td>27.5%</td>
<td>31.5%</td>
<td>34.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: Primary Data

Majority of the respondents expected that there will be more than 20% revenue growth in F&O segment by implementing a new business model (34%). 31.5% of the respondents are on the opinion that 10-20% revenue growth in this segment can be attained through the execution new business models/ strategies. Merely 7% of the respondents are on the opinion that the revenue growth derivative sector will be below 5% even if a new business model has implemented.

The following hypotheses were formulated for testing the goodness of fit between position of the respondents and their expectation about growth in revenue.

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H0: the relation between position of the experts and their expectation on revenue growth is not statistically significant.

H1: the relation between position of the experts and their expectation on revenue growth is statistically significant.

Table 5.28: Chi-Square Tests between position of the respondent and growth in revenue expected

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>6.198a</td>
<td>6</td>
<td>.401*</td>
</tr>
</tbody>
</table>

Source: Primary Data

*At 5% level of significance

The expectation of executives working in different position regarding growth in revenue is not statistically significant at 5% level of significance; where Pearson’s Chi-square value 6.198 with p value 0.401>0.05.

To conclude this section; initially the support service offered by various stakeholders in F&O trading was analyzed on the context of exchange, firm, partner, staff and customer level. The result shows that top level executives are quite satisfied with support service offered by various stakeholders for derivative trading; and at the same time they have arisen some apprehension on the quality of service rendered by staffs for investor’s education and trading (MANOVA results). The Friedman test results shows that experts would like to select a contract based on their own previous trading experience; and they are least concerned about looking at research oriented inputs. In addition to this Multi -Dimensional Scaling result shows that index based derivative instruments are strongly suggested by experts for their clients as a hedging tool. The experts expressed greater concern for rendering consultation to F&O customers and in order to provide effective service proper classification on customers have to be implemented. The strategies suggested by experts for different customer group has been further validated by using paired sample t-test.
5.10. Strategic business model for derivative trading

With the advancement of technology Indian capital market has become more wide and accessible to retail investors. Several financial institutions were emerged and they began to offer world class services in rural areas also. Generally the investment decisions are subject to several macro-economic variables, but when we are looking to the retail investors; several demographic and psychographic factors can also influence their investment decisions. Especially retail investors are more sentimental and they are expressing great concern even on small losses. This section is emphasized to develop a strategic business model for derivative trading after considering different technical and behavioural variables influencing retail investors.

5.10.1. Background & Initiatives

This model was developed after considering the opinion collected from retail investors and working executives having close association with capital market. The results inferred from the primary data analysis set as a base for developing this business model. This model was developed with the following intentions;

- Provide a structural model for retail investors to insure their portfolio with derivatives.
- Enable the broking firms to design trading strategies for attracting more retail investors; and thereby enhancing revenue from F&O segment.

5.10.2. Scope of this Model

This model provides a better base for derivative trading; especially to the broking firms and other intermediaries. The retail investors were consecutively segregated in to inexperienced and experienced in the context of knowledge in derivative trading process and separate strategies were designed in order to attract for both category of investors. Various tactics with respect to promotion of derivatives, management and retention of customer base can also be derived from this model. The retail investors will get to know about the necessary prerequisites for successful derivative trading. Further other stakeholders like regulators, government, academicians, researcher etc. can consider this model as a base for further studies.
Figure 5.3
Strategic Business Model for Trading with derivatives

Expected Outcome:
- Profit maximization/minimize the losses of investors.
- Revenue to intermediaries by way of brokerage.
The above model can be explained with the help of necessary theoretical justifications.

5.10.3. Technical and behavioural factors

5.10.3. A. Technical Factors

The F&O contract selection are subject to several technical factors like economic situation, industrial performance, historical price movements and the information available from the capital market.

a) **EIC Framework**: Economy- Industry- Company frame works plays a vital role in influencing investment decision. While selecting a contract; the investors would like to select an extremely safe and promising investment option from a performing industry belonging to a stable economy.

b) **Historical Stock price Movements**: While selecting an investment usually the investors will consider the stock price movement (or index movement) for a sizable period. The investors tend to believe that the past trend is likely to influence in future also.

c) **Market Information**: In stock market it is generally believed that the security price will reflect all available information from economy, industry, company etc. (Random Walk Theory). Whenever a new piece of information arrives, the investors will behave accordingly; i.e. If the information is favorable they will invest and if the information is unfavorable they will divest.

5.10.3. B. Behavioural Factors

The following are certain behavioural factor which would influence investment decisions of retail investors.

a) **Confidence**: The derivative investments are usually subject to financial risk. While selecting a derivative contract one has to show extreme confidence and courage.

b) **Know-How**: Certain investor might have a better knowledge on the functioning of F&O through different sources. This know how creates a strong urge in their mind to go for capital market investment.

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c) Urge to get an idea about trading process: Some time the retail investors advance a small amount in derivative segment in order to enhance their understanding about the functioning of futures and options.

d) Previous Experience: The hands own experience either it is sweet or bitter would provide a better outlook on the up and down movements of capital market.

e) Counting success of experienced: Sometimes the investors will be influenced by the success stories of experienced investors. And they will usually think like “why I can’t if they can?”

f) Meeting personal financial needs: the major personal objectives with F&O investments are maximization of return and minimization of risk. From investment/speculation angle derivatives would help to maximize return and from the viewpoint of safety it would help to insure the principle investment in stock market.

g) Public information from new paper/ media etc.: The write ups about derivatives from newspapers/ media etc. may create an intention in the mind of retail investors to experience the trading process.

h) Social Influence: Several investors have an attitude of “Me too”. Their investment decisions are highly influenced by investment decisions by their friends, relatives, fellow investors etc.

i) Influence by Brokers: Usually the broking firms will encourage the investors to trade with derivatives because derivative segment can generate more revenue than that of cash segment. To a certain extend these advices can influence their investment behaviour.

j) Loyalty: Convinced investors will show a strong sentiment towards a group of stocks/derivative contracts by ignoring all other analytical outputs. They will consider familiar stocks/contracts even during the period of difficulty rather than going for new stocks/contracts.

The above factors can stand as a base for taking any investment decision. And all categories of investors irrespective of their area of residence are influenced above technical and behavioural factors before selection of any contract.
5.10.4. Role of influential factors

Even though the investment decisions are driven by the motives of maximization of return and minimization of risk; there are several other factors can influence the investors towards derivative contracts. The investors can be influenced through advertisement/write ups about derivatives, direct influence by broking firms or influence from reference group etc. Here the different stakeholders can play a vital role in influencing more investors toward F&O segment.

❖ The exchanges can attract more investors towards derivative segment by designing and offering innovative tools for managing their risk.
❖ The broking firms can attract more investors towards derivatives segment by offering excellent infrastructure, rendering support to investors by trained staff, providing education programs to the investors, organizing promotional programs at firm level etc.
❖ The regulators can play a vital role via creating and enforcing rules for protecting the interest of retail investors. (Regulators are considered to be vital partner for derivative trading).
❖ Other partner level institutions like financial institutions & other government agencies can support F&O trading by way of arranging fund for trading purpose (loan for premium, margin money etc.), counsel the investors about the pros and cons in derivative investment etc.
❖ The qualified staffs at trading terminal can play a vital role in canvassing investors from cash segment. They can also provide proper orientation to investors regarding the mechanism of trading with derivatives.
❖ The investors should undertake derivative trading only after obtaining adequate knowledge about it. They should monitor their contract/ margin position frequently in order to avoid undesirable losses. New investors should seek sufficient advice from experts before selecting a contract.
❖ Other stakeholders like stock analysts, rating agencies etc. can support the retail investors through rendering timely advisory services.
5.10.5. Categorization of investors

The derivative investors can be classified on the basis of their experience; where the inexperienced investors may not have sufficient knowledge and skill in derivative trading practice and the experienced investors are those who are presently trading with derivatives. Here inexperienced investors can be attracted towards this segment through orientation programs and the experienced investors can be retained through promotional strategies.

a) Orientation: orientation toward derivatives can be given to inexperienced investors via offering mock trading terminals at firm level, specialized coaching programs, education/ awareness classes etc.

b) Promotion: the experienced investors can be motivated by way of offering attractive brokerage, liberalized maintenance margin, arranging fund for investment through broker initiated tie-ups with banks and financial institutions etc.

5.10.6. Managing customer base

Once the investors come across derivative investment; the broking firms should develop alternative strategies to manage their customer base.

a) Providing education: An in-depth education about financial derivatives and its functioning is highly useful for educating inexperienced investors.

b) Timely expertise advice: expertise advice enables the inexperienced investors to identify and choose a suitable contract.

c) Monitoring contract position: Monitoring the investment portfolio is highly beneficial for experienced and inexperienced investors to safeguard their investment. The firm should support the investors by providing proper information regarding their contract position and giving timely advice regarding selection, cancellation and modification of F&O contracts.

d) Counseling: Proper psychological counseling from external experts can be organized for the investors those who have suffered financial losses. Even though such practices are not followed by broking firms in the present scenario;
from the society’s angle it would become their responsibility to serve their customers financially and mentally.

e) **Arranging financial assistance:** Broking firms can go for a tie-up with banks and financial institutions in order to arrange sufficient fund for their customers to support their trading activities. This financial support can be extended by way of organizing fund from financial institutions for initial premium (option contract), margin money (futures), recovering/ repaying contract obligation etc. At the same time internal financial assistance can be offered by way of charging lesser brokerage/commission etc.

This model intends to suggest structure and strategies for successful derivative trading even though there are several macro- economic overpowering variables can influence the result. After considering the above fact technical factors also consecutively incorporated towards this business model. The investment decisions are subject to several technical factors like historical price movements, Economy- Industry- Companywide characteristics, market information etc. Along with technical aspects various behavioural characteristics also plays a vital role in decision making process. These behavioural factors can play a dominant role especially in the case of retail investors. Additionally the investors are attracted towards derivatives mainly by various influential factors like advertisement, referral groups, promotion by broker and other intermediaries etc. Different stakeholders like exchanges (industry), brokers, portfolio managers, Government, SEBI and other regulators, financial institutions, fellow investors etc. can influence the retail investors in this stage. This influence may lead them to take a decision to purchase/ sell a derivative contract. The role of broking firms will begin from this stage by categorizing the investors based on their experience. Proper orientation programs should be ensured for inexperienced investors and proper promotion has to be designed to retain experienced investors. Here orientation can be given to the new investors by conducting awareness classes, distributing educational materials, facilitating mock trading terminals, organizing opportunity to interact with successful players etc. The existing players can be attracted towards trading by offering attractive commissions/ brokerage, arranging financial assistance from commercial banks for fund in the form of premium, margin money etc. The existing customer base should be managed effectively by using appropriate strategies designed for the purpose.
5.10.7. Conclusion

This section envisioned developing a business model for trading with derivatives, and the same is useful for retail investors as well as intermediaries. This strategic business model was developed after considering different strategies identified through survey of literature and primary data analysis. The various stages right from the decision to trade with derivatives to manage the customer base were incorporated in this model with suitable strategies. Further validity of the above model has to be proven by rigorous testing and examination among a large group of investors. If the market is highly volatile a strong measure cannot be derived from the suggested model. Despite the limitations this model suggests a collaborative measure for investors as well as broking firms regarding prerequisites for efficacious F&O trading.
References

12) Hair, Joseph F. (2010), Multivariate Data Analysis, Pearson Publications, USA.

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