

# A Study on Surge of Online Discount Stock Brokers in India

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**Abstract** - Stockbroking is a service which gives retail and institutional investors the opportunity to buy and sell equities. Stockbrokers will trade shares both on exchange and over the counter, dependent on where they can find the best price and liquidity. Stock exchanges place strict regulations on who can trade shares directly on their books, which is why most individual investors hoping to trade shares will do so via a stockbroker.

Online Trading has created a lot of opportunities for new-age traders. If you are a stock market enthusiast and want to Trade Online then, this can be the best time to start investing online.

With the advent of the technologies that are used in the trading arena, it is becoming better day by day for the traders. Online trading is more or less like you do online shopping.

You just need a few basic things like a bank account, internet connection, and internet banking facilities. Along with these, last but not the least, a device from which you can place the order. It is the same for online trading as well – A Demat account, trading account and bank account, internet facility and trading platform on your device and you are sorted.

**Index Terms** - Online trading, Discount brokers, Traditional brokers, SEBI, Stock.

## INTRODUCTION

A discount broker is a stockbroker who carries out buy and sell orders at reduced commission rates compared to a full-service broker. However, a discount broker does not provide investment advice or perform analysis on a client's behalf, unlike a full-service broker. Before the emergence of better communications technology, only the wealthy could afford a broker and access to the stock market.

However, the Internet has brought an explosion of discount online brokers that allow individuals with smaller capital to trade for lower fees and with less capital. In terms of the stock market, most discount

brokers operate through online platforms. As a result, a discount broker is nearly synonymous with online brokerages.

## KEY TAKEAWAYS

- A discount broker is a stockbroker who carries out buy and sell orders with little or no commissions.
- Discount brokers do not provide the investment advice or guidance provided by a full-service broker.
- Discount online brokers compose a large section of the fintech industry.

## REVIEW OF LITERATURE

Bhanu Pant and Dr. T.R.Bishnoy (2001) analysed the behaviour of the daily and weekly returns of five Indian stock market indices for random walk during April 1996 to June 2001. They found that Indian Stock Market Indices did not follow random walk.

Nath and Verma (2003) examine the interdependence of the three major stock markets in south Asia stock market indices namely India (NSE-Nifty) Taiwan (Taiex) and Singapore (STI) by employing bivariate and multivariate co integration analysis to model the linkages among the stock markets, No co -integration was found for the entire period (daily data from January 1994 to November 2002). They concluded that there is no long run equilibrium.

Debjiban Mukherjee (2007) made a comparative Analysis of Indian stock market with International markets. His study covers New York Stock Exchange (NYSE), Hong Kong Stock exchange (HSE), Tokyo Stock exchange (TSE), Russian Stock exchange (RSE), Korean Stock exchange (KSE) from various socio- politico-economic backgrounds. Both the Bombay Stock exchange (BSE) and the National Stock Exchange of Indian Limited (NSE) have been

used in the study as a part of Indian Stock Market. The main objective of this study is to capture the trends, similarities and patterns in the activities and movements of the Indian Stock Market in comparison to its international counterparts. The time period has been divided into various eras to test the correlation between the various exchanges to prove that the Indian markets have become more integrated with its global counterparts and its reaction are in tandem with that are seen globally. The various stock exchanges have been compared on the basis of Market Capitalization, number of listed securities, listing agreements, circuit filters, and settlement. It can safely be said that the markets do react to global cues and any happening in the global scenario be it macroeconomic or country specific (foreign trade channel) affect the various markets.

Juhi Ahuja (2012) presents a review of Indian Capital Market & its structure. In last decade or so, it has been observed that there has been a paradigm shift in Indian capital market. The application of many reforms & developments in Indian capital market has made the Indian capital market comparable with the international capital markets. Now, the market features a developed regulatory mechanism and a modern market infrastructure with growing market capitalization, market liquidity, and mobilization of resources. The emergence of Private Corporate Debt market is also a good innovation replacing the banking mode of corporate finance. However, the market has witnessed its worst time with the recent global financial crisis that originated from the US sub-prime mortgage market and spread over to the entire world as a contagion. The capital market of India delivered a sluggish performance.

Kajal Gandhi (2015), Retail Investors Participation in Indian Stock Market- A Survey, GJRA - Global Journal For Research Analysis (Vol.4, Issue-02), ISSN No 2277 - 8160: paper findings were based on the survey which has been carried out among five cities- Mumbai, Delhi, Kolkata, Chennai and Ahmedabad. The respondents of the metro cities are more inclined towards investing in stock market as they consider it as financial tool but they don't have expertise knowledge or don't prefer to hire a professional to manage their portfolio due to which they fall prey of losses. However, people at Tier-II cities like Ahmedabad still consider the traditional investment like gold, property, gold and bank deposits are their

favorite option this is due to narrow minded as their is low saving habits, low awareness of investment opportunities.

#### STATEMENT OF PROBLEM

Digitisation has radically shaped the Indian financial markets, including stock broking. The way stock brokers in India interact with potential investors has undergone a massive change over the years. While traditional or full-service brokers have always enjoyed a dominant presence and preference among investors, a demographic shift towards technology has given rise to a new breed of stockbrokers, known as discount brokers. Unlike a traditional broker, a discount broker's services are limited and restricted primarily to providing a trading platform.

Sometime around 2011-12, RKSV (now Upstox), a three-year old proprietary brokerage firm at the time, opened itself to offering retail brokerage services. RKSV launched India's first online-only unlimited trading plan for its users and began the disruption of the brokerage industry of that era. Ever since then, discount brokers have been rapidly gaining popularity all over the country. In an industry long dominated by a select class of firms with nearly no innovation, the advent of discount brokers has been a pleasant surprise.

#### OBJECTIVES OF THE PAPER

- To study the concept of discount broking
- To know the benefits of trading with an online discount broker
- To know the limitations in trading with a discount broker
- To understand the difference between a full-time broker and a discount broker
- To know the popular online discount broking apps in India

#### RESEARCH METHODOLOGY

The study is based on secondary sources of data/information. Different books, journals, newspapers and relevant websites have been consulted in order to make the study an effective one.

#### DISCOUNT BROKERS

At the very core, the primary job of a discount broker is to receive 'buy' and 'sell' orders from the customers and execute them immediately. Discount brokers offer lower brokerage rates, rapid transaction times on stocks, commodities, and forex. Dissimilar to a traditional broker, they may not offer you in-depth trading advice or research reports on a particular stock. If you trust your investment decisions, a discount broker is always a better option as it offers you much-needed services at almost no cost

In America, as early as 1969, digital trading systems - ECNs (electronic communications networks), were used by brokerage firms to display bids and determine stock prices. By the 1980s, the financial industry started waking up to the potential of the Internet. As the ownership of personal computers increased, several brokerage firms started creating their own software to establish a link between stock traders and current pricing of stocks. For the next 10 years, online stock trading started developing slowly and in a confined manner. The Internet brought down costs back then. And it is bringing down costs right now again. We are now in an era of discount brokers who leverage the power of the same tool to disrupt the financial industry. India too has caught up. The discount broking industry owes a large number of first-time traders a large part of its success.

#### ADVANTAGES OF TRADING THROUGH DISCOUNT BROKERS

- Low Cost: Discount Broker offer lowest brokerage charges compare to full-service broker. Which help for trader or investor convert any trade in profit with low BEP ( Break-even Point )
- Online Trading Terminal: As you know discount broker mostly work centralised so for them online trading terminal is best way to manage client. They offer best Online Trading Terminal free of cost
- Unbiased Offer: Whether big or small investor, Discount Broker offer you same securities.
- Low Transitional Cost: Mostly Discount Broker offer lowest Transactional cost due to their high volume of trades.
- Transparency: Discount Broker offer 100% transparency in their cost – Brokerage Calculator, Margin Calculator, Charges Sheet, Trade Confirmation
- Clients Education: Discount Broker offer online educational video tutorial for their client so client can educate and trade with them for longer time. Mostly full-service broker not provided this type of facilities.
- No Misleading: Discount broker doesn't give brokerage target or third product sales target to their employees.
- Paperless Account Opening: With help of Aadhar Number Discount Broker offer Paperless Account Opening – Open Online Trading account in 10 mins. Whereas full- service broker still process same way.
- No Minimum Brokerage: Unlike full-service broker discount broker don't charge minimum brokerage for their client. Means if you want to buy or trade in panny stock then discount broker is best option for you.
- Flat Brokerage Charges: Discount Broker offer their client Flat brokerage charges irrespective of Trade volume means if you buy 1 lot or 100 lot of Nifty, they charge you flat Rs 20\* (Zerodha Leading discount Brokerage Charges for F&O) where Full-service broker charges you as per % on volume you trade.

#### DISADVANTAGES OF TRADING THROUGH DISCOUNT BROKERS

- No Branch Support: Mostly Discount Broker worked centrally so if you required Branch Support for Paperwork then Discount Stock Broker not for you. You should search Broker who offer Branch Support and offer discount brokerage like Zerodha.
- No Relationship Manager: Discount Broker don't offer relationship manager like full- service broker so if you service class people and don't have time to check online portfolio regularly and required a person who can manage your stocks and mutual fund portfolio then Discount stock broker is not you cup of tea.
- All-in-one Roof: Full-service broker office all investment product in one roof where discount broker mostly offers stock investment and mutual fund investment option to their client

- No advisory: Discount Broker don't offer Advisory service where as full- service broker offer their client advisory service free of cost.
- PMS Service: Discount Broker doesn't offer Portfolio management service to their client. If you are looking fund manager who can manage your fund then Full- service broker is best option for you.
- 3 – in – one: Unlike Full-service banking broker Discount broker don't offer 3-in-one (Banking + Trading + De-mat account) opening.

#### WHO ARE TRADITIONAL OR FULL TIME BROKERS?

A traditional broker provides a large variety of services to its clients - such as trading (stocks, commodities, and currency), advisory, research, asset management and retirement planning. A traditional broker usually allows trading of different financial instruments - forex, mutual funds, pension plans, insurances, bonds, IPOs and FDs.

Traditional brokers come with a steep operating rate, due to these extra facilities. The commissions charged by them are significantly higher than discount brokerages. This could eat up your profits in the long run, especially if you trade multiple times during a short time frame. If your budget for brokerage is high and you have the resources to find someone to take care of your money and investments, a traditional or full-service broker might be a right choice for you.

#### ADVANTAGES OF TRADITIONAL BROKERS

While they are expensive, traditional brokers claim to offer a certain set of advantages:

- Research: Traditional brokers will deliver detailed research on stocks and market outlook. The significance of these reports however, is debatable, especially in today's internet age, where similar information is available to the masses for free.
- Recommendations: All sorts of recommendations including investment and diversification ideas, retirement plans, and tax-saving guides come from traditional brokers.
- Additional Services: Traditional brokers claim to provide extra services such as commodities,

currency trading, advisory, research, asset management and more.

On closer inspection, you're likely to observe that the 'advantage' may not offer true value. Research reports are available from hundreds of reputed sources online now thanks to the internet. Information is no longer the monopoly of traditional brokerages.

#### ADVANTAGES OF CHOOSING A DISCOUNT BROKER OVER A TRADITIONAL BROKER

Traditional brokers charge a hefty sum for their services which can end up eating into your profits - which can look much worse if you begin to doubt the value their services are adding to your portfolio. Discount brokers are ideal for new or small investors for a variety of reasons, and are in fact, driving many first-time investors into the markets. Discount brokers reduce the market entry barriers. More newbies and millennials are entering the dynamic world of share markets thanks to easy points of entry.

- Zero/Low Commissions: Discount brokers will carry out your buy-sell orders at a very low commission rate.
- Powerful Analysis Tools: Discount brokerages offer more than 100 charts and other tools to smartly analyse your stocks and trade intelligently and independently.
- Time and efficiency: Discount brokers offer an efficient and time saving approach to trading. Time is everything in the markets. With innovative and fast platforms, you can place and execute orders instantly.
- Better Tech: Discount brokers are more likely to be in sync with new technologies - such as paperless account opening processes that eliminate paperwork and reduces costs.

Once dominated by traditional brokers, the industry is now being challenged for domination by new age discount brokers - who deliver far more bang for your buck. If you have limited time to spend on your investments and other monetary plans, a traditional broker may be a better choice for you. But for all other cases - especially if you are a frequent trader and trust your investment ideas, a discount broker is ideal.

#### HOW ONLINE DISCOUNT BROKERS HAS CREATED A SURGE IN STOCK TRADING?

The internet has had a fascinating impact on information and accessibility. Information is now *democratised* - everyone can get it whenever they choose to. With faster speeds and more bandwidth, it is possible to challenge the hegemony of large brokerage firms and deliver world-class, competitive trading platforms and services at a fraction of the cost. This has led to a surge in the popularity of discount brokers in India - since traditional brokerages no longer offer anything compelling.

Additionally, another important factor is the increasing rate of financial literacy in India. Larger numbers of people are now learning to invest and grow their money, especially so after events like demonetisation. For beginners stepping into the market, discount brokers make perfect sense to start with.

The coronavirus pandemic and the rise of trading apps and social media are attracting a new breed of Indian equity investors who are not afraid to take risks.

According to a report in Bloomberg, there has been a massive boom in the number of 20- and 30-year-old millennials who have turned to stock trading during the pandemic. Many of these day traders are first timers, driven by a combination of COVID-induced boredom and the ease of trading provided by numerous new online platforms, the agency reported. Following the lockdown, market regulator Securities and Exchange Board of India (SEBI) took several steps to ease market participation, which has led to the current boom. It introduced regulations to ensure orderly trading, effective risk management and price discovery in the market.

In April, it reduced broker turnover fees to 50 per cent of the existing fee structure for June 2020-March 2021, and filing fees on offer documents for public issue, rights issue and share buybacks.

It also digitised the entire know-your-customer (KYC) process – among SEBI’s most progressive regulations of the year, according to Forbes. This allowed investors to fill their details via the internet.

Compared to previous generations, millennials today have limitless access to market information, and they are also savvy about their finances.

In a recent report, Forbes quoted Prakarsh Gagdani, CEO of 5paisa.com, as saying India’s millennials have “learnt to protect their investments, which is a good thing because that will allow them to stay invested in

equities unlike in earlier decades when new investors would leave the market after losing money”.

“We saw many new investors waiting to invest until markets fell sharply, rather than when they were at their highs. Now, when markets have moved up significantly, they are taking calculated risks,” Gagdani said.

Active investor accounts in India hit a record 10.4 million last year – a sign of confidence in India’s equity markets, which crashed last year at the onset of the lockdown but which have since scaled record highs.

Bloomberg quoted Mark Mobius, an emerging-market investor, as saying that China is “probably a model of what you can expect will happen in India” in terms of retail investor participation in the stock market. “India could easily equal China’s market cap in the next five to 10 years because going forward, growth in India’s market will probably be faster,” he said.

#### TOP DISCOUNT BROKERS IN INDIA

This list of Top 10 Discount Brokers in India is prepared with the current data available on the NSE website with active customers. The Discount Brokers offer online trading services on fixed brokerage price. Zerodha is the number one broker in India after pushing down ICICI Direct. Discount brokers are no more offering only brokerage services but they are coming up as Fintech companies as they are investing more in technologies to get the market share.

With their offerings, customer service, product line, and low brokerage, Discount brokers will keep leading the market. Full-Service Brokers like Angel Broking, Edelweiss, Alice Blue and so on already started moving towards discount brokerage. In the near future, we will see a major move in this area. Below is the list of Top 10 Online Discount Brokers in India.

1. Zerodha is over all number 1 broker in India, not just in discount broking segment with active customer count - 4543870.
2. Upstox is the 2 largest discount brokers in India with active customer count - 3310215. Still the difference between Zerodha and Upstox is more than half in terms of active customers.
3. Angel Broking ranked number 3 discount broker in India with active clients - 2152468. Angel Broking was full-service broker, but recently they changed their plan and move to discount broker

segment. The 3rd rank for Angel Broking is not organic as this count is mix of old and new customers.

4. Groww ranked number 4 discount broker in India with active clients - 1568235. Groww is making its space in the broking business very fast due to its existing mutual funds customer base.
5. 5Paisa ranked number 5 discount broker in India with active clients - 1089828. Because of Angel Broking's entry in discount broking segment, 5Paisa has moved down from 3rd to 4th place. But in true value, 5paisa is holding 3rd rank in discount broking segment.
6. Edelweiss ranked number 6 discount broker in India with active clients - 168319. Again, this is a lateral entry as Edelweiss also changed their brokerage plan from percentage based brokerage to flat fee brokerage.
7. Alice Blue ranked number 7 discount broker in India with active clients - 141760. Again, a lateral entry in discount broking, but Alice Blue is well known name for commodity trading in South.
8. SAMCO ranked number 8 discount broker in India with active clients - 79157. Compare to its peers Zerodha, Upstox, 5paisa - SAMCO is far behind in the market share. Logically SAMCO holds 4th Rank but due to Angel Broking and Edelweiss entry, its ranks move down to 6th place.
9. Fyers ranked number 9 discount broker in India with active clients - 55902. In terms of actual discount brokers ranking, Fyers must be ranked number 6th after Zerodha, Upstox, Groww, 5paisa and SAMCO. But due to changes in the business model from Full-service broker with their old customer counts, Fyers moved to 9th place. In past two years, Fyers has moved up and now coming in top 10 positions. We can see that Fyers has the potential to grow in a much faster speed due to its platform, margin policy and active management.
10. SAS Online ranked number 10 discount broker in India with active clients - 19518. From last 2 years, SAS online is not able to expand very much where brokers like Zerodha, Upstox, 5paisa are taking major market share.

#### CONCLUSION

Larger numbers of people are now learning to invest and grow their money, especially so after events like demonetisation. For beginners stepping into the market, discount brokers make perfect sense to start with. Young traders are familiar with new technology; thus they prefer discount brokers built on newer, advanced platforms over traditional brokers. The number of traders and investors in India continues to increase every day at a rapid rate.

It is obviously not affordable for all traders to trade through traditional brokers with their prohibitively high charges. Discount brokers offer multiple advantages that facilitate the type of investors India has. For reasons ranging from our demographics to the very model of discount brokerage, these firms are peaking in popularity nationwide.

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