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Study of How Online Trading Works in India

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Abstract*: Online trading is a method that facilitates buying and selling of financial instruments such as mutual funds, equities, bonds, Sovereign gold bonds, derivatives, stocks ETFs and commodities through an electronic interface.*

Keywords: Online trading.

I. INTRODUCTION

*Online trading is a method that facilitates buying and selling of financial instruments such as mutual funds, equities, bonds, Sovereign gold bonds, derivatives, stocks ETFs and commodities through an electronic interface.
*Online trading has simplified a complex process into few clicks.
*A couple of decades ago, a buyer or seller had to reach out toa broker on the phone or physically to execute a trade, that demanded significant effort and time. Previously, a broker had access to modify and execute the trades. With online trading the control is in your hand, this has ensured a better user experience and transparency.

Benefits of Online Trading.
*In response to the question on benefits of an online system, the respondents rated convenience, ability to help users to identify investment opportunities, low cost, and the quick confirmation of trade as the most important. Those who were not users of online trading services also mentioned that they used to surf the websites in search of investment tips and then took the decision to buy or sell.

***DEFINITION OF ONLINE TRADING.**
The Internet revolution has been changing the fundamentals of the society. It changes the shape of communication and also trading process. It shifts closer and closer to vital sources of information and new trading environment by the name of "online trading". It provides users with means to directly interact with service- oriented computer systems tailored to their specific needs; therefore,
they can serve themselves better by making their own decisions. There are lots of definitions for online trading. Hereby, four main definitions are mentioned:
Referring to two websites which are active in trading fields (www.investorwords.com and www.advfn.com) they define online trading in this manner: The increasingly popular activity of buying and selling securities over the internet, or to a lesser extent, through a broker's proprietary software. Likewise, Fan et al. define it in this way: The 'online trading' is defined as a process of trading financial products especially stocks over the Internet, and online stock trading site is a web site that helps traders or customers to buy and sell the financial products over the Internet.

Online Trading characteristics.
High amounts spent on advertising: Because of relatively low barriers to entry, companies in this industry spend heavily on advertising in order to create a "brand" or "portal destination". The industry is in a race to lads up as many customers as possible, with the idea that a company can retain those customers by creating switching casts. Each company could create switching costs by customizing the company portal, making it costly for a customer who switches to competitors' site.
Importance of technology: Companies in the industry compete on speed of access, speed of order processing, and system reliability. Conventional brokerages are not accustomed to dealing with this additional layer of complexity. Established online brokerages have an advantage over newly entering conventional brokerages in this area.

Scale is important: With the large conventional brokerages entering the online business, gaining economies of scale will be important. Heavy advertising costs will need to be spread over a larger number of accounts. How successful a brokerage is at gaining and retaining customers over the next year will determine which online brokerages survive as independent businesses.

Different service proposition: Online brokerages offer a different bundle of features compared to conventional brokerages. Convenient, twenty-four hours access for trading and research are defining characteristics of the online business. Convenience and low-cost trades have been two primary drivers responsible for the significant transfer of investors from conventional brokerages to online brokerages.

Access to Online Trade

Nowadays, stock brokers have the option to trade from their smartphones or computers. One can trade online from a share broker's website or an online trading app. A broker offers to open a Demat and trading account. The first thing that is needed is to link the two accounts with each other, but if an account is opened with one broker, i.e., Share India, the Demat and trading will be free of cost.

An online broker is a medium between a trader and the stock exchange. The broker charges in online trading are pocket-friendly. You can trade with minimal fees and a small amount of capital. Unlike in the past, online trading can begin as low as the price of a stock, which can be a penny or more. The stock broker must be SEBI-registered. A SEBI is an Indian stock market regulatory body that ensures a proper trading mechanism for traders, companies, and stock brokers. SEBI ensures that there is no manipulation or scams which can disrupt the function of the stock market.

Major stock exchanges in India are:

*National Stock Exchange (NSE)

*Bombay Stock Exchange (BSE)

History of Online Trade-

*The history of online stock trading is a fascinating and revolutionary story about the power of two worlds colliding and changing the industry of stock trading forever. The two that were destined to meet? Public access internet service and electronic stock trading. It's hard to remember it now, but prior to the combination of the two, investors used to call (via land lines only at the time) a live broker (real person) to place a trade. Similarly, stock brokers used to call investors and "sell" the purchase of a company's stock. Now with a few keystrokes and a click, an investor can access information and initiate a stock trade with no assistance or advice. As early as 1969, digital trading systems called electronic communications networks (ECNs) were being used by brokerages to display in-house the bid and ask prices for stocks. By the late 1980s, as the financial industry began to realize the potential of a public internet and ownership of personal computers was growing in popularity, some of the leading brokerages began to look more closely at ECNs. Several industrious brokerages either developed software or bought companies that had developed software to link up stock traders with current stock price information, thereby matching up buyers with sellers easily and efficiently and with significant cost savings.

Over the next 10 years, the history of online stock trading developed slowly, temporarily crippled by the stock market crash of 1987, a recession and the Gulf War. Additionally, the costs were still generally high for online access for retail stock traders. It was in the 1990s that things shifted and online stock trading really took off.

Trade*Plus was another pioneering company in the history of online stock trading and in 1985 offered some of the very first retail trading platforms on America Online and CompuServe. Trade*Plus continued to offer its services to brokerages, but in 1991 one of the founders of Trade*Plus, William Porter, created a new subsidiary company called

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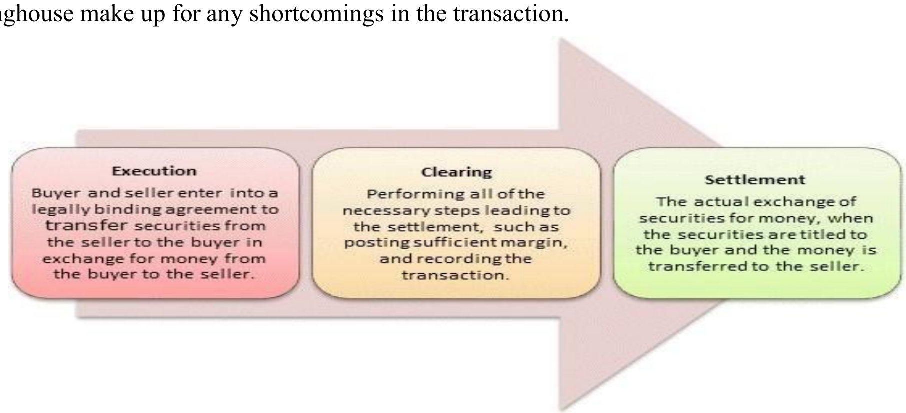
E*TRADE Securities, Inc.

***GROWTH OF ONLINE TRADING SYSTEM.**

***Electronic settlement of trade**

- **Execution** is the transaction whereby the seller agrees to sell and the buyer agrees to buy a security in a legally enforceable transaction. All processes leading to settlement is called clearing, such as recording the transaction. Settlement is the actual exchange of money, or some other value, for the securities.
- **Clearing** is the process of updating the accounts of the trading parties and arranging for the transfer of money and securities. There are 2 types of clearing: bilateral clearing and central clearing. In **bilateral clearing**, the parties to the transaction undergo the steps legally necessary to settle the transaction. **Central clearing** uses a third-party — usually a clearinghouse — to clear trades. Clearinghouses are generally used by the members who own a stake in the clearinghouse. Members are generally broker-dealers. Only members may directly use the services of the clearinghouse; retail customers and other brokerages gain access by having accounts with member firms. The member firms have financial responsibility to the clearinghouse for the transactions cleared. It is the responsibility of the member firms to ensure that the securities are available for transfer and that sufficient margin is posted or payments are made by the customers of the firms; otherwise, the member firms must cover any shortfalls. If a member firm becomes financially insolvent, only then will the clearinghouse make up for any shortcomings in the transaction.



For transferable securities, the clearinghouse aggregates the trades from each of its members and nets out the transactions for the trading day. At the end of the trading day, only net payments and securities are exchanged between the members of the clearinghouse. For options and futures and other types of cleared derivatives, the clearinghouse acts as a counterparty to both the buyer and the seller, so that transactions can be guaranteed, thereby virtually eliminating counterparty risk. Additionally, the clearinghouse records all transactions by its members, providing useful statistics, as well as allowing regulatory oversight of the transactions.

-Settlement is the actual exchange of money and securities between the parties of a trade on the settlement date after agreeing earlier on the trade. Most settlement of securities trading nowadays is done electronically.

Stock trades are settled in 2 business days (**T+2**), while government bonds and options are settled the next business day (**T+1**). The T+3 time for settlement that was prevalent before 2018 was shortened by the SEC in 2017 to

In futures, settlement refers to the mark-to-market of accounts using the final closing price for the day. A futures settlement may result in a margin call if there are insufficient funds to cover the new closing price.

Modern day settlement and clearing evolved as a solution to the paper crisis of securities trading as more and more stock and bond certificates were being traded in the 1960's and 1970's, and payments were still made with paper checks. Brokers and dealers either had to use messengers or the mail to send certificates and checks to settle the trades, which posed a huge risk and incurred high transaction costs. At this time, the exchanges closed on Wednesday and took 5 business days to settle trades so that the paperwork could get done.

NO.	CATEGORY	RESPONSES IN %
1	YES	95.2%
2	NO	4.8%

***FINDINGS**

Out of 100%, 95.2% of the respondents are aware of online trading, in Mumbai.

High percentage of respondents invests in Equities, least respondents trade in Future Option Equities. Out

It has been observed that 55.2% respondents are aware of the different trading methods whereas 15.2% respondents are not aware or not sure about such methods.

Talking about the problems faced during trading online, it has been seen that 38.1% respondents are afraid of cyber-crime, Moreover, 16.2% people face speed problem

II. CONCLUSION

In today's scenario when all services are going online or in electronic form, the trading companies are creating awareness of online trading so that the client can trade from anywhere from the world. The trading company takes care of the client's portfolio and whenever his/her portfolio valve will decrease than the client is always informed by his/her relationship manager.

Th introduction of online trading has influenced the investors resulting in an increase in the business of the exchange. Due to the invention of online trading, there has been a greater benefit to the investors as they could sell/buy shares as when required and that too with online trading.

The brokers have greater scope then compared to the earlier times because of the invention of online trading.