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Survey of Retail Financial Intermediaries

**Financial Institutions Reform and
Expansion (FIRE) Project**

August 1998

**Financial Institutions Reform and Expansion (FIRE) Project
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**Price Waterhouse LLP
1616 North Fort Myer Drive
Arlington, VA 22209
Tel (703) 741-1000
Fax (703) 741-**

Price Waterhouse LLP



August 1, 1998

Mr D R Mehta
Chairman
Securities and Exchange Board of India
Mittal Court, B Wing
Nariman Point
Mumbai 400 021

Dear Mr Mehta,

Re Survey of Retail Financial Intermediaries (RFIs)

As part of our contract with the USAID the Price Waterhouse FIRE Project consultants, Mr Paritosh Sharma and Mr Kavi Kapur have completed the next part of our activity towards assisting the Securities and Exchange Board of India (SEBI) in furthering the understanding of the retail distribution of financial products in India

Salient Findings

- High degree of fluidity in retail financial intermediation
- Retail financial intermediaries (RFIs) deal in a wide range of products and in multiple roles (viz as brokers and sub-brokers)
- A majority of RFIs are unknown and unregistered with any regulatory authority Even in the secondary market only 38% of sub-brokers are registered
- There is demand for specialized education and training in retail financial intermediation with a substantial majority (64%) of all brokers and sub-brokers feeling that formal training is a prerequisite before entering the business today
- Only a small proportion of RFIs canvass for new business and a substantial proportion deal with clients only when they contact them



Purpose of Activity

One of FIRE projects goals is to further the development of capital markets in India by promoting research on capital markets through methods such as, promotion of studies at SEBI, the exchanges, capital market intermediaries, policy institutions and/or training institutions

Keeping the above goal in mind, the project contracted Price Waterhouse, India to conduct an independent survey of a sample of retail intermediaries to understand the structure, role and operating strategies of financial intermediaries in the Indian capital market. The analysis, observations, and other findings of this survey will be utilized to better understand the nature of the enforcement challenge being faced by SEBI and the SROs as the licensing and certification process to professionalize the industry is introduced

Background

Crucial to the success of any product is the presence of a qualified and extensive distribution network. The relevance of this is even more so for the financial products industry. The broker and sub broker community is the interface for investors in the securities business, both in the primary and secondary markets. They are the most significant intermediary level, as the level of confidence investors have in the securities markets depends largely on the quality of services provided by them.

In the present state of Indian securities markets, the individual investor intermediaries, the sub broker remains largely an unregistered entity. The number of registered secondary market sub brokers is just 4000, more than half of whom are in Mumbai, which is only a small section of existing retail financial intermediary population.

This survey seeks to further the work done by PW FIRE consultant Tom Keyes on Licensing, Testing and Certification of Market Intermediaries, Registration and Regulation of Market Intermediaries and Distribution of Financial products.

The Survey

In line with the above the FIRE project initiated a survey of Retail Financial Intermediaries (RFIs) focusing on the capital markets in February 1998. The primary survey, designed on the basis of an understanding of macro level



information on household savings and its investment and available secondary information on geographical concentration of investors, was conducted in June 1998 and covered 35 cities and towns across the four geographical regions and varying sizes of towns

The instrument used for the survey was a structured questionnaire administered in English or one of the 11 vernacular languages into which questionnaire translations were available. The survey focused on the retail intermediaries (those deriving at least 25% of business from retail segments) covering 1198 respondents across brokers (primary, secondary) and sub-brokers (primary, secondary, and fixed deposit agents) category. The detailed findings of the survey together with information on the survey design and limitations are presented in the enclosed report.

Conclusions

1 The Distribution of Financial Products

The distribution of financial products takes place through a chain of intermediaries. The chain starts from the issuer, which includes the manufacturing companies, non banking financial companies, mutual funds and other corporates selling a variety of financial instruments ranging from stocks, debt instruments and fixed deposits, mutual fund units and collective investment vehicles like plantations etc. The next level is the wholesaler of financial products, the merchant bankers and the brokers who deal with large investors and other intermediaries. And subsequently come the agents and sub brokers who primarily deal with the retail investors.

RFIs distribute a multiplicity of financial products, since they are the financial consultants to the retail investor and therefore have to be the providers of all investment products. Also, today's market conditions dictate that in order to survive one has to offer a varied portfolio of investment avenues to the investor.

2 Fluidity in the Distribution Chain

One of the major conclusions, which is made amply evident by this survey, is the chaos and fluidity which exists in the distribution network for financial products. There are no clear definitions of roles or of responsibilities for retail financial intermediaries (RFIs). All intermediaries try to sell an assortment of products and have ambiguous and unstable relationships with issuers and other



intermediaries RFI's enter and leave the market and different product segments depending on market conditions

There exists fluidity in the affiliations / relationships between retail market intermediaries. The same intermediary may be involved in the distribution of varied financial products and furthermore may transact business with more than one broker for the same financial product. The respondents who identified themselves as either dealing in the primary, secondary or the fixed deposit market earn a substantial proportion of their income from other financial products.

The survey shows that Primary Market Brokers (PMBs) earn 23% and 12% of their income from the secondary market and fixed deposits, respectively. Even Secondary Market Brokers (SMBs) do not earn all their income from the secondary market (only 83%). Similarly, the sub-brokers also earn large chunk of their income from varied financial products. Fixed Deposit Agents (FDAs) earn only 45% from fixed deposits, Primary Market Sub-brokers (PMSBs) earn 32% from the secondary market, and Secondary Market Sub-brokers (SMSBs) earn only 63% from the secondary market.

The survey reveals that on average, PMSBs deal with 4.1 PMBs, FDAs deal with 8.7 Fixed Deposit Brokers (FDBs) and 53% of SMSBs who deal with more than one SMB, are associated with 3.6 SMBs. Furthermore the PMSBs not only associate with PMBs they also bypass the PMB and go directly to the Merchant Banker (MB) (17% of PMSBs are associated with a MB). This is even more prevalent amongst FDAs with 44% associating directly with a Co./NBFC.

It is in the light of this fact that the lack of trust between the broker and sub broker can perhaps be understood. The broker unaware of other businesses and intermediary relationships of the sub broker seems unwilling to shoulder responsibility for all of the sub broker's actions, at the cost of jeopardizing his own financial and business prudence.

Ambiguity about Function/Responsibility There is a lack of clarity about the functions and responsibilities of the retail intermediaries towards each other and toward their investors. The outcome of this is an environment where blame is continually shifted from one participant to another, delaying resolution of the problem adversely affecting investor confidence.



3 Demand for Specialized Education

The survey finds that only 25% of all brokers and 22% of all sub-brokers have undergone any formal training to conduct their business. Even this appears to be a substantially high figure for there are very few institutes, which offer any quality training programme in retail financial intermediation.

Though the survey reveals that the RFIs are reasonably well educated (62% of brokers and 63% of sub-brokers are graduates and 32% of brokers and 22% of sub-brokers are post-graduates) keeping in mind the low level of formal training, it can be assumed that the RFIs' understanding of financial products, markets and regulations, is based primarily on experience.

Yet they play a crucial role in the investment decision of the investor. 82% of brokers and 93% of sub-brokers responded that they were consulted at sometime or the other by the investor before making their investment decision.

While the level of formal training is low, a substantial majority (64%) of all brokers and sub-brokers feel that in order to enter the business today, formal training is a prerequisite. This indicates a latent demand for more specialized training programmes in retail financial intermediation.

4 The Industry doesn't know its salesforce, the RFIs

As the majority of retail financial intermediaries are not registered with any regulatory authority, they are unknown and hence not accountable for their actions to anyone.

The only segment of retail financial intermediation which has a regulatory structure in place is in the secondary market. SMBs and SMSBs are regulated by SEBI and the stock exchanges.

Even in the secondary market the majority of RFIs are unregistered. Only 38% of our sample of SMSBs were registered with SEBI, with 31% of the SMSBs unaware of any requirement to register. A substantial proportion (62%) of SMBs receive business from unregistered SMSBs. These SMBs when asked the reasons for not getting their sub-brokers registered stated that the SMSBs did not want to get registered (30%) and that they did not want to take complete responsibility for their SMSBs (24%).



This hesitancy to register can be explained by the fact, that, in the earlier days of floor-based trading the number of trades that could be executed was limited by physical access to the trading floor. SMBs, by virtue of their control of physical access to the trading floor, had some measure of influence (and control) over the SMSBs.

In today's environment of screen-based trading, where information technology has facilitated huge number of transactions that can be executed on stock exchanges through multiple trading terminals, the broker no longer has the same knowledge and control on the activities of the SMSB. The market dynamics and the existing business practices do not sustain the level of trust between the SMB and SMSB, which the current SEBI rule requires.

Furthermore the study reveals a dramatic decline in the level of registration as the class of town declined, suggesting that a majority of registered SMSBs were located in bigger towns. This fact is corroborated by actual registration figures available with SEBI.

A considerable number of RFIs may thus have an opportunity to over-reach and act in non-transparent ways in their transactions. The study reveals that only 79% of brokers and 64% of sub-brokers provide receipts for all transactions to their clients.

In the absence of regulatory oversight, it could be assumed that a prudent business practice for a RFI would be to verify the antecedents of other RFIs they associate with. Even this does not appear to be uniform practice followed by all the brokers. A vast majority of brokers (71% of PMBs and 67% of SMBs) did seek verifications from their sub-brokers, but this still leaves a gap which could be exploited by a few unscrupulous individuals to gain entry into the business. In majority of the cases, this verification is limited to references provided by the sub-broker and the other criteria's vary from broker to broker.

The honest and professional individuals present in the market are therefore forced to compete with individuals who do not adhere to the same level of responsibility and ethics.

The lack of uniform minimum standards of entry and the lack of regulatory oversight creates fluid and ambiguous intermediary relationships that adversely affect the reach of investor protection regulations down to the investor. This also leads to insufficient checks on those working in the industry, thus allowing the entry of those few unscrupulous individuals who by their actions bring



disrepute to the entire industry. This is evident in the survey findings with 11% of SMSBs stating that clients have lost faith in the sub-broker when asked why they felt number of SMSBs would decline in the future.

Furthermore, since majority of the RFI's are not registered and hence *have no legal standing* in today's scenario, their avenues for redress are limited if not non-existent. Majority of the sub-brokers look to their brokers to resolve any investor grievances that may arise, since they are not legally recognized.

5 The Reach of the Financial Markets

The survey estimates that there are approximately 1200 PMBs and 8,000-10,000 PMSBs who are currently active in towns with a population greater than 100,000. These numbers have to be seen in light of the current depressed primary market conditions. It is also pertinent to note that the number of intermediaries who are distributing other financial products like fixed deposits has been estimated by the survey to be in region of 50,000 in towns with the population greater than 100,000. These intermediaries who distribute fixed deposits and other financial instruments are also likely to distribute IPOs once primary issues are available for distribution.

The survey also estimates the number of active SMBs at 3,500 and the number of active SMSBs at around 20,000. Therefore the total strength of the retail distribution network in the secondary market is approximately 23,500. According to the survey, the average number of direct individual clients of a SMB is 13 and that of a SMSB is 215. Extrapolating these figures, the total number of investors who are active in the secondary markets currently are approximately 4.3 million.

The number of investors in the Indian capital markets have been variously estimated as between 9 million (in 1990 *Indian Shareowners - A Survey, SCMRD, 1991*) and 30 million (anecdotal). The existing network perhaps needs to be expanded to cater to this large number. Furthermore, given the geographic spread and population of India, if the equity cult is to spread, this number of RFIs needs to increase.

Also, primary market products have been distributed by large number of RFIs to large number of investors. The secondary markets distribution has to reach these investors so that they have an exit route for their investments.



6 Marketing the Industry to its Customers

Only a small proportion of RFIs canvass for new business. Only 34% and 31% of PMBs and SMBs, respectively, canvass for new business. This was a little better amongst the sub-brokers with a greater percentage actively seeking new business (47% for PMSB 34% for SMSB & 54% for FDA). This lack of initiative retards the growth of the capital markets. Furthermore, the brokers appear to be less proactive with 46% of them dealing with clients only when they contact them.

Recommendations

- 1 The current regulatory focus on the secondary market RFI needs to be broadened to include all those who distribute financial products to retail investors. Regulation of all market intermediaries with a focus on retail intermediaries is a must for improving the level of investor confidence in the markets. The professionalization of all these RFIs is essential for investor protection to reach retail investors and in expanding the reach of the Indian markets. This widening of regulatory focus involves not only SEBI, but also all government and non-government institutions that have a stake in the financial markets of this country. In fact, it has to be an industry wide effort to recognize and regulate this intermediary, who is de facto, the industry as far the investor is concerned. For it is the intermediary who represents the industry to the investor.
- 2 The first step to achieve this is to find out who these intermediaries are and register them. Registration of these intermediaries shall only be the first step towards their regulation. It would be impossible to regulate their activities, without knowing who these intermediaries are.
- 3 In order to create and sustain professionalism among RFIs it is imperative that all the RFIs are licensed, tested and certified. This will ensure that the RFIs will have a minimum level of knowledge of the products they distribute. It will also provide them with an ability to assess and respond to the needs of the investors and make them aware of their responsibilities as professionals of the industry.



- 4 Since the present market regulatory framework has not reached the majority of the RFIs as brought out in the study, perhaps other options could be explored. The choices for this are regulation through direct regulation or self regulation with regulatory oversight. The choices and the suggested plan are detailed in a prior FIRE Project report titled *Distribution of Financial Products Registration and Regulation of Retail Capital Market Intermediaries May 1998*. Whichever choice the Indian markets make for the regulation of RFIs, the regulatory organization must set entry norms so that only person with certain minimum levels of expertise, ethics, capital adequacy etc. could become members. The organization would provide the RFIs with the power and standing they now lack and enhance investor protection and confidence.

For the success of this project the participation and cooperation of your management and staff is essential. We would like to thank you and your colleagues at SEBI for the time, courtesy and cooperation extended to us during the course of this project.

Please contact us at the FIRE project for any clarifications you may require.

Thanking You,

Sincerely yours,

W DENNIS GRUBB
PRINCIPAL CONSULTANT FIRE PROJECT

Survey of Retail Financial Intermediaries

FIRE Project

July, 1998

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Glossary

Shareholder A person or legal entity that owns equity or preference shares of a Company. The proof of his ownership is his share certificate.

Primary Market A market for new issue of shares, debentures and bonds where investors apply directly to the issuer for allotment and pay application money to the issuer's account.

Secondary Market A market in which investments are made in already issued and listed shares/debentures (securities). These securities are purchased from the existing investors and sold to interested investors.

Retail Financial Intermediaries (RFIs) refers to all those financial intermediaries who interface between financial markets and retail investors. In this report, the term RFIs include all brokers (active in both primary and secondary market) and sub-brokers (active in both primary and secondary market) and fixed deposit agents.

Primary Market Brokers (PMBs) refers to the financial intermediaries who mobilise subscription in the primary market either directly or through their employees/agents. They may or may not operate in other related markets such as secondary market, fixed deposit market, etc.

Primary Market Sub-brokers (PMSBs) refers to the financial intermediaries associated with one or more PMBs/Merchant Bankers. They mobilise public subscription and usually deal directly with their clients. They may or may not operate in other related markets such as secondary markets, fixed deposit markets, etc.

Secondary Market Brokers (SMBs) refers to members of a recognised stock exchange licensed to buy or sell shares on their own or on the client's behalf. They may or may not operate in other related markets such as primary market, fixed deposit market, etc.

Secondary Market Sub-brokers (SMSBs) refers to the financial intermediaries associated with one or more SMBs and who use the services of the SMBs to execute transactions on behalf of their clients. They may or may not operate in other related markets such as primary markets, fixed deposit markets, etc.

Fixed Deposit Agents (FDAs) refers to the financial intermediaries associated with one or more FD Brokers/Companies. They may or may not operate in other related markets such as secondary markets, primary markets, etc.

Only PMBs refers to those primary market brokers who see themselves as primarily operating in primary markets but do not have any significant dealings in secondary markets. However, they may be active in the secondary market at a different level, viz. as a sub-broker. They may or may not operate in other related markets such as fixed deposit, mutual funds and UTI units, etc.

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Only PMSBs refers to those PMSBs who see themselves as exclusively operating in primary markets and not being active in secondary markets dealings. They may or may not operate in other related markets such as fixed deposit markets, UTI units, etc.

Only SMBs refers to those secondary market brokers who see themselves primarily active in secondary market operations without any significant dealings in primary markets. They may or may not operate in other related markets such as fixed deposit markets, UTI units, etc.

Only SMSBs refers to those SMSBs who see themselves as operating exclusively in secondary market sub-broking operations and do not act as sub-brokers for primary markets. However, they may have interests in the primary markets at a higher level and may act as brokers. They may or may not operate in other related markets such as fixed deposit markets, UTI units, etc.

Only FDAs refers to those FDAs who see themselves as operating primarily in fixed deposits markets having little interest in capital markets (both primary and secondary markets). They may or may not operate in other related markets such as UTI units, Tax-saving instruments, etc.

Registration with SEBI Existing SEBI regulations require mandatory registration by sub-brokers. This registration is done through the stock exchange brokers they are associated with.

Security Deposit The initial margin money provided to a broker by the sub-broker, before he is allowed use of broker's services. This deposit money usually required for secondary market operations protects brokers against default by the sub-broker associated with him.

Delivery Business A secondary market sale/ purchase of shares/ debentures in which money and shares/ debentures are exchanged.

Square-off Transaction A secondary market sale/ purchase of shares/ debentures which is set off by a reverse transaction before the settlement date.

Bad Delivery SEBI has formulated uniform guidelines for good and bad delivery of documents and gives an exhaustive list of such instances. Typically instances of bad deliveries may pertain to the transfer deed being torn, mutilated, overwritten, defaced, or if there are spelling mistakes in the name of the company or the transferor, erasure or crossing out in the characters of the folio numbers, distinctive number range or certificate numbers, or if the transfer deed is improperly stamped by the delivering trading member, etc.

Please note that the definitions provided for the terms above are not standard and many terms have been defined keeping in view the specific scope and purpose of this survey and as such these terms should be interpreted within their contextual settings.

Survey of Retail Financial Intermediaries

Executive Summary

Indian capital markets with their vast geographical reach, have been a key focus of policy and institutional reform since 1991. Price Waterhouse, under its contract with the United States Agency for International Development (USAID) has been providing technical assistance to the capital market institutions in particular to the regulatory bodies under the Financial Institutions Reform and Expansion (FIRE) project.

One of the focus areas of the FIRE project has been initiative and assistance in the development of a regulatory and institutional framework for improving the quality of retail intermediation in the capital markets. For this program to gather momentum, it is important that the regulators and the industry at large have a clear understanding of the current profiles and practices of capital market intermediaries.

It is in this context that the FIRE project initiated a survey of Retail Financial Intermediaries (RFIs) focussing on the capital markets in February 1998. The primary survey designed on the basis of an understanding of macro level information on household savings and its investment and available secondary information on geographical concentration of investors was conducted in June 1998 and covered 35 cities and towns across the four geographical regions and varying sizes of towns. The instrument used for the survey was a structured questionnaire administered in English or one of the 11 vernacular languages into which questionnaire translations were available. The survey focussed on the retail intermediaries (those deriving at least 25% of business from retail segments) covering 1198 respondents across brokers (primary, secondary) and sub-brokers (primary, secondary, and fixed deposit agents) category. The detailed findings of the survey together with information on the survey design and limitations are presented in the enclosed report. The key findings are presented here.

- The survey found that there is **high degree of fluidity in retail financial intermediation** i.e. RFIs enter and leave the market and different product segments depending on market conditions.
- There is also a **high degree of overlap in the market**. 28% of the sample clearly saw themselves as falling in more than one category of RFI. Of the balance 72% who saw themselves as falling in only one category, multiple roles (viz., as brokers and sub-brokers) in different markets and dealings in wide range of products was prevalent. As such, there is a very small proportion of RFIs who deal exclusively in capital market instruments.
- The average RFI works within a **multiplicity of relationships** characterised by brokers transacting business on multiple stock exchanges, sub-brokers working with multiple brokers.
- The **retail broker** is, as expected, to be found primarily in stock exchange towns and is currently more focussed on the secondary market. He has been to the University at the undergraduate level but does not have specialized training to be a broker. He is 41 years old and has been in the broking profession for about 11 years. A majority of the brokers do not read specialized reports or access databases to keep

themselves updated. The average broker has organized himself as a proprietary concern. Corporatisation is limited to only about a quarter of broking establishments. Office automation has penetrated the average broker's offices but the Internet revolution has not (86% of brokers had computers but only 19% had e-mail/Internet).

A majority of the brokers were reluctant to be specific on their association and relationships with sub-brokers/ agents possibly due to the SEBI directive on registration of sub-brokers.

The average broker appears to be reactive rather than proactive. 46% responding to phone in clients rather than going to clients. A majority of brokers see 'providing new investment information and providing and collecting forms' as the primary services provided by them but a third also provide research and analysis' while less than a fifth provide other services such as 'tax planning' portfolio management' temporary loans and spot financing etc.

- The **retail sub-broker** (including the fixed deposit agent) who serves as the direct interface with the retail investor is found more widely dispersed outside of the stock exchange towns than the broker. The survey findings suggest that there are few sub-brokers who deal exclusively in any one product (primary market instruments, secondary market instruments, fixed deposits, UTI/LIC instruments).

Like the average broker, the average sub-broker has been to the University at the undergraduate level but has little specialised training for the role he plays in the capital markets. He is, on an average, three years younger than the broker and has spent about 8 years in the profession (compared with 11 years for the broker).

About a third of sub-brokers met said that they had entered this business because they were attracted by the profits. Like the brokers, a majority of the sub-brokers do not access research reports or databases. Only one half of the sub-brokers met derived a hundred per cent as their income from this profession and over a fifth derived less than 50% of their income from this profession, pointing to a significant presence of part time employment in this market.

The average sub-broker even more than the broker (86% as compared with 65%) runs a proprietorship concern. Only about half the sub-brokers had their own office, the balance working out of home or from a broker's offices. Even those who have offices do not necessarily have office automation equipment. The survey suggests that sub-brokers are somewhat more proactive than brokers with fully three fifths reporting that they initiate contact with clients.

Sub-brokers cite providing new investment information and providing and collecting forms as the main services provided by them although a larger proportion than brokers provide other services to clients including tax planning (36%) and portfolio management (17%).

- A Corporate or a Fund desiring to make a primary issue is likely to encounter the following **primary market structure** at present

- Over 300 merchant bankers located primarily in the top six cities who can currently access around 1 200 primary brokers operating mainly in markets in the 20 stock exchange towns and who in turn currently access 8 000 – 10 000 sub-brokers in towns with a population greater than 100 000

With this reach more than 95% of investors in primary issues can be accessed. These brokers and sub brokers can also access sub brokers and sub-sub brokers/ agents in smaller towns

- There are a large number of other RFIs who are currently either not active or active in some other segments, i.e. fixed deposits/ UTI/ LIC instruments. These could come into the primary market very quickly if the primary market becomes buoyant or even if there is a very large and well-marketed issue. The survey estimated that at the peak of the primary market there were at least twice as many brokers and three to four times as many sub-brokers active in the primary market
 - Brokers work with a large number of merchant bankers and sub-brokers work with a varying number of brokers and merchant bankers. As a result there are no exclusive channels reaching specific investor segments. On the other hand, extensive market reach can be accessed by appropriate selection of a few merchant bankers
- The **secondary market structure** in the current situation is as follows
 - An estimated 3 500 brokers out of a total of around 7,500 registered as members of various stock exchanges are currently reported to be active in the retail segment
 - More than half these brokers transact business on additional stock exchanges they are not member of. On an average around 80 to 85% of their income comes from secondary markets with the balance coming from Primary Issues, UTI schemes, Mutual Funds, Fixed Deposits, etc
 - These brokers are assisted by an estimated 20 000 sub-brokers i.e. about five times the number registered with SEBI. We estimate that around 65% of these operate in the Stock Exchange towns, with another 30% being in non-stock exchange towns with a population greater than 100 000
 - The majority of Sub-brokers work with more than a single broker. Brokers typically verify a sub-broker's background through references, a check of financial assets and the past track record before appointing him
 - Both brokers and sub-brokers have increased the proportion of "square-off" business as compared to the delivery based business on account of a fear of bad deliveries

- The number of intermediaries in the secondary market has reduced significantly from the peak days of 1994-95. Intermediaries expect the numbers to decrease further but most see themselves as remaining in the business.

In conclusion, the survey findings suggest that considerable work needs to be done in training and registering capital market intermediaries who, though concentrated in stock exchanges towns, can be found in significant numbers in numerous smaller towns across the country.

Although initially envisaged as covering retail investors as well, the survey focussed only on certain specific segments of the retail financial intermediaries. All responses are therefore representative of these segments and reflect the intermediaries' perception of the relevant issues. A separate investor survey is suggested to gain a comprehensive understanding of these issues, particularly those related to investor needs and relationships. This being the first survey of its kind, it may be used as a baseline for future research in this direction as it raises issues for discussion and further inquiry. In particular, a survey focussed on respondents in non-stock exchange towns may be necessary for an in-depth and more representative exploration and appreciation of intermediation issues in such towns.

1 Background

As part of the economic liberalisation in India the Indian Capital Markets have been undergoing a process of expansion since 1991. Price Waterhouse under its contract with the United States Agency for International Development (USAID) on the Financial Institutions Reform and Expansion (FIRE) project has been providing technical assistance consultancy to Indian regulators in various ways with issues related to the Indian Capital Markets.

One of the key objectives of this Project is the *Strengthening of the Regulatory Framework in the Indian Capital Markets* which includes the development and strengthening of Self Regulatory Organisations (SROs) broker licensing testing and certification programmes improved disclosure and a review of Indian securities laws. As part of this exercise documenting and promoting an understanding of the retail market and the service levels available to the retail investor has been a focus of the FIRE Project.

Since sub-brokers are most often the interface that investors have with the markets the quality and efficacy of intermediation they provide forms the basis of investor confidence. Erosion of the retail investor's confidence could be the reason for the severe decline in their participation in the market especially in the primary and secondary equity markets. Retail financial intermediaries in other financial markets (including Fixed deposits Insurance UTI products, Plantation schemes, etc.) also play a significant role in influencing investment decisions.

The number of sub-brokers in the market is unknown. SEBI's effort to register them led to around 15,000 applications but industry estimates put their actual number as anything between 30,000 and 90,000. These estimates also vary with market conditions as there are a large number of part time intermediaries who enter the market only when conditions are favourable. The identity of a vast majority of sub-brokers remains unrecognised since they are not registered with SEBI. Little formal and documented knowledge exists of their background qualifications, breadth of intermediation functions pursued by them, range of financial instruments in which they transact, relationship with various other market participants, business practices and style of working. It is critical to supervise train qualify and register them through an acceptable mechanism. The FIRE Project has been involved in a number of initiatives involving the Registration, Licensing Certification and Testing of the Retail Financial Intermediaries (RFIs). For this program to gather momentum it is important that the regulators and the industry at large have a clearer picture about the intermediaries involved.

The Fire Project team has gathered various anecdotal evidences regarding sub-brokers interacted with several of them to form a reasonable understanding of how they function and conducted workshops and seminars to generate awareness among them regarding registration requirements. It is in this context that the FIRE Project initiated a survey of Retail Financial Intermediaries. This survey seeks to validate and strengthen the understanding of RFIs. The results of this study are expected to generate issues for debate and promote discussion among various capital market bodies and fora, with which the FIRE project is involved. The objectives scope of work and approach are

provided below

Objectives

The objective of this study was to understand the structure role and operating strategies of retail financial intermediaries focussing on the capital markets. The key Study Objectives this study were as follows

- To characterise the different segments of intermediaries and the linkages between the various segments including the relationships between brokers and sub-brokers,
- To determine the profile of RFIs including their demographic profile, qualification, training and registration status range of financial instruments in which they transact and the infrastructure available with them to service clients
- To determine the nature of the relationships between RFIs and their clients including Intermediary practices and services provided to Clients

1.2 Price Waterhouse Approach

The following approach was adopted in conducting the study

Phase I Preliminary Industry Analysis

This phase involved a review of secondary data and available literature on the relevant topics. The project team also held discussions with the FIRE team and other industry players to gain a broad level understanding of financial intermediaries and the mechanics of the retail investment markets. The work done in this phase helped gain a contextual understanding of retail investment in India, in terms of the investment opportunities for retail investors along with investment pattern and geographic distribution of investors and investments across the country. Based on the understanding arrived at during this phase, the project team prepared preliminary hypotheses for the subsequent primary survey.

Phase II Survey Design and Planning

The terms of reference of the study envisaged a primary survey covering 800 – 1000 RFIs.

India comprises of 25 states and 7 union territories with 4 mega metro cities¹, 20 metros² and 285³ Class I towns. The 309 most populous cities account for 20% of the population of India estimated at 960 million in the beginning of 1998. However, 80% of India's population lives in about 627,000 villages⁴ and about 3,450 towns of population below 100,000.

¹ Mumbai, Delhi, Calcutta and Chennai

(cities with population above 1,000,000 excluding Mega metros)

² Towns with population 100,000 and above

⁴ Statistical outline of India 1997-98. I.A.F.A. services Ltd.

However the secondary survey confirmed that financial activity is highly concentrated

- The 21 stock exchange towns contribute about 80% of total investments in primary issues⁵ and for more than 43% of total bank deposits⁶
- The four Metros along with Ahmedabad contribute more than 67% of total investments in primary issues⁷ and for 55% of India's shareowning households⁸

Taking the above into account and based on the discussions with the FIRE team it was decided that the primary survey would cover a statistically relevant sample of RFIs for towns above 100 000 population classified as Class I as per the Indian Census Bureau. It was also decided to cover a limited number of towns between 50 000 and 100 000 (classified as Class II towns) in order to identify any differences in intermediation as we go from urban to semi-urban areas.

The sampling plan was arrived at with the following criteria in view

- Providing adequate regional coverage,
- Providing coverage across the different size of towns – mega-metros, metros, Class I and Class II towns
- Focussing coverage to the Stock Exchange towns and the top investment centres of the country

On this basis it was decided to cover 39 cities with a targetted coverage of a minimum of about 20-30 RFIs in the class I towns, and 15-20 in the class II towns. The coverage included all four Mega metros, 16 other metro towns, 12 class I towns and 7 class II towns. In total 20 stock exchanges were included in the targetted coverage. The maximum targetted coverage was 140 contacts each in the four Mega metros.

The sampling frame was arrived at on the following basis

- ◆ The stock exchange brokers lists were based on information published by stock-exchanges
- ◆ The field survey agency had
 - country wide lists of brokers and sub-brokers of interest to issuers of securities in the primary market as well as to FD issuers
 - Lists of secondary market intermediaries based on previous surveys conducted
- ◆ The supervisors in each survey city were asked to develop lists at least 3 times in length to the required sample prior to the survey based on the above two and contacts with market sources. The RFIs were contacted randomly from this list.

Five sets of questionnaires addressing the retail intermediary segments of Primary Market Brokers (PMB), Primary Market Sub-brokers (PMSB), Secondary Market Brokers (SMB), Secondary Market Sub-brokers (SMSB) and FD Agents (FDA) were developed.

⁵ Source: Prime Database 1997

⁶ As per RBI Banking Handout - Quarterly Statistics (September 1997)

⁷ Source: Prime Database 1997

⁸ Shrivastava's Geographic Distribution 1994 (SCMRD)

on the basis of the hypotheses prepared earlier

A pilot study was conducted in Mumbai and Jabalpur covering 63 respondents. On the basis of the results and experience of the pilot study the questionnaires were refined further and the five questionnaires were collapsed into two questionnaires addressing the Broker and Sub-Broker segments. These two questionnaires had sub-sections dealing with specific issues relating to primary and secondary market intermediaries and FD Agents. The analysis design was also completed during this phase.

Phase III Survey and Analysis Phase

The survey instrument developed in English was translated into 11 languages (Tamil Malayalam Kannada Telugu Marathi Gujarati Bengali Oriya Hindi Assamese and Punjabi). The questionnaire carried English and vernacular versions of the question side by side and required the investigators to record whether the interview was conducted in English or the local language. Among brokers 281 interviews were conducted in English (about 76% of brokers surveyed) 38 in Hindi 15 in Gujarati 2 in Marathi and the balance 36 interviews were conducted in other languages including Kannada Telugu Punjabi and others. Among sub-brokers 557 interviews were conducted in English (about 67% of sub-brokers interviewed) 173 in Hindi 35 in Bengali 34 in Gujarati 5 in Punjabi, 5 in Telugu and the balance 17 in others.

The survey which was outsourced was conducted simultaneously in the 4 regions using 30 teams who were provided 2 days of training each. The investigators were college graduates generally with a commerce background with prior experience in carrying out surveys. The training included a briefing on terms used in the survey instrument as also individual role plays to get the investigators comfortable with the way that the questionnaire was to be administered.

The survey was completed during a two week period in June 1998. Forty per cent of the executed questionnaires were cross checked randomly by the market research agency supervisors to correct and crosscheck the data. The survey was actually conducted in 35 towns including 4 Mega Metros, 16 Metros, 10 class I towns and 5 class II towns. The highest coverage was in New Delhi i.e. 138 respondents. Annex B carries survey sample details.

The analysis of the data was done by the market research agency subsequently using the Quantum analysis software with intensive involvement of the PW team. This report presents the consolidated findings and analysis of the secondary as well as the primary survey.

1.4 Structure of the Report

This report is organised into seven chapters including this introductory chapter.

Chapter 2 The Retail investor

This chapter examines the existing data on the retail investor including

macro data on household savings and investment preferences. It also presents a brief profile and geographic distribution of the retail investor based on the studies reviewed.

Chapter 3 Retail Financial Intermediaries - Brief Introduction and Market Structure

This chapter introduces the segments considered for the purpose of the survey and the market structure which emerged on the basis of the study.

Chapter 4 Who is the retail intermediary?

This chapter provides a business and individual profile of the various categories of RFIs covered by the survey.

Chapter 5 How does the RFI relate to other intermediaries?

This chapter examines the relationship between brokers and sub-brokers. It also presents findings on the registration issue in the secondary markets.

Chapter 6 How does the RFI relate to his clients?

This chapter examines the relationship between the RFI and his direct clients as well as the market practices of RFIs.

Chapter 7 Conclusions

This chapter provides a summary of conclusions.

The supporting Annexes provide details on

A Research Design

- Sampling Plan
- Questionnaires

B Research Limitations

C List of References

D Data Tables

2 The Retail Investor

The individual shareowners or the retail investors have been part of the Indian Capital Markets for a long time although their numbers have grown significantly only during the eighties and the nineties. This section sets the context for this report by reviewing available macro data and micro studies on trends in Household savings and investment profile of the retail investor and is based on the secondary study conducted in phase I of the Project.

2.1 Information Availability

There is little authentic data available on the retail investor and his/ her investment preferences.

The secondary survey carried out by Price Waterhouse found that the only source of regular updates on **household savings** and its **investment pattern** is the RBI's Report on Currency and Finance. This report is based on a compilation of periodic returns from banks and other financial agencies and to some extent draws on surveys conducted by the Central Statistical Organisation (CSO). Surveys of investors have been few and these typically have covered small samples. The largest of these surveys have been conducted by *Society for Capital Market Research and Development* (SCMRD) and include

i) Indian Shareowners – A Survey

Published in 1991, this report presented the result of a nationwide survey conducted in 1990 by SCMRD involving about 6500 household contacts. It covered a wide range of investor related aspects including profile, investment habits, portfolio diversification, size, perceptions, preferences, and problems etc.

ii) Shareowners Geographic Distribution – City-wise, Urban-Rural and State-wise

Published in 1994, this study undertaken by SCMRD was based on data culled from shareholders registers of corporations and examines how the population of shareowning individuals in India is distributed over various places/ regions.

In the last few years, some organisations have initiated compilation and analysis of data on **primary issues**. The only published data available on **secondary market investments** is daily trading volumes on the stock exchanges. But this has not been analysed in terms of breakdown into retail and institutional trades, size, distribution of retail trades, etc.

In this section, we shall review available information on

- Household Savings
- Investment Preferences of Households
- Profile of Retail Investors

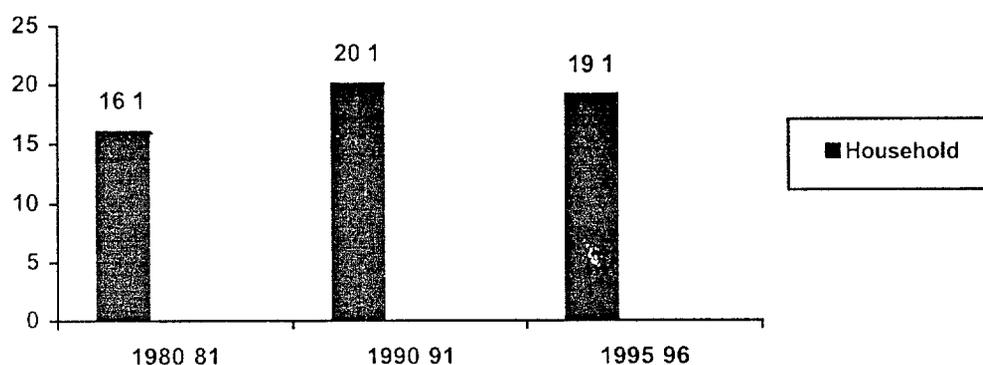
The Annex C lists the secondary sources scanned by us

2.2 Household Savings

Household Savings as percentage of GDP and the trend over the years

Household Savings (HHS) as percentage of Gross Domestic Product (GDP) has followed an increasing trend over the years and as per quick estimates of CSO has touched a peak of 19.1% of GDP in 1995-96 from a figure of 14.6% of GDP in 1985-86. At about 70 – 75% of Gross Domestic Savings (GDS) the household sector's contribution in total savings has been much higher than that of the private corporate sector and the public sector taken together. It may be observed that the overall increase in GDS as a percentage of GDP is primarily on account of increase in contributions made by the Household sector. The chart below provides household savings (as percentage of GDP) over the years.

Chart 2.1 Household Savings (as percentage of GDP) over the years



Please refer Annex D for details

Household savings in financial assets⁹ over the years

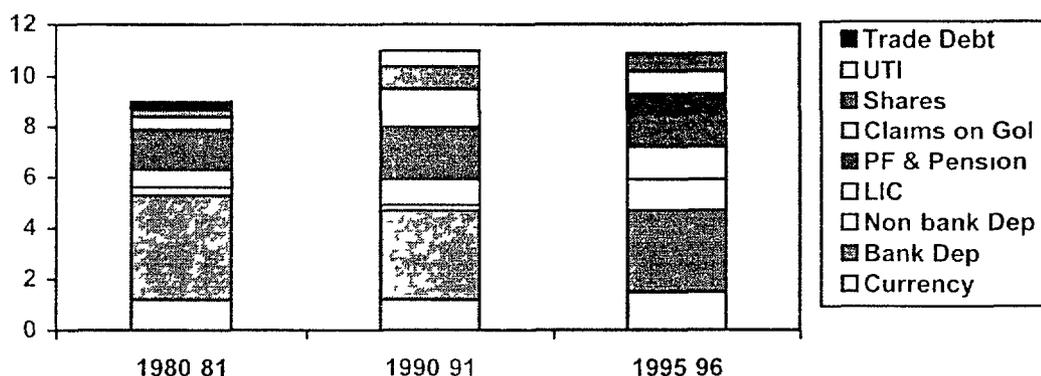
The household savings in financial assets (net) have shown an increasing trend over the years and as a percentage of GDP it reached its highest point at 11.4% in 1994-95 from 6.3% in 1980-81. This high level of household savings in financial assets may be explained by the very high investment interest in financial assets during the buoyant phase of the capital markets. The year 1995-96 experienced a fall in household savings in financial assets to 8.4% of GDP – which was the effect of a fall in bank deposits of the households and lower investment in claims on Government and in shares and debentures. Investment in shares and debentures declined from a level of 1.2% of GDP

⁹ Financial Assets as defined by RBI include Currency, Bank Deposits, Non Banking Deposits, LIC Policies, PF and Pension funds, Claims of Government, Shares and Debentures, UCI and other MF units and Trade Debt.

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in 1994-95 to a level of 0.7% in 1995-96 and 0.5% in 1996-97. The CSO estimates household savings in financial assets at 10.6% for the financial year 1996-97.

Chart 2.2 Household Savings in financial assets (as percentage of GDP)



Please refer Annex D for details

2.3 Investment Preferences of Households

2.3.1 Investment preferences for the retail investors

The RBI's Report on Currency and Finance gives an indication of household investment pattern over the years. It is observed that the bank deposits have come down from about 46% of financial assets of Households in 1980-81 to around 37% of financial assets in mid-nineties. The liquid cash holdings also appear to have followed a similar decreasing trend and have come down from around 13% in 1980-81 to around an average of 9% in mid-nineties. On the other hand, non-banking deposits have gone up substantially, i.e. from 3% of financial assets in 1980-81 to around 13-14% in the mid-nineties. The proportion of life insurance products into financial assets has registered a moderate but steady increase through this period.

Investments in shares and debentures and units of UTI are driven by the state of financial markets and accordingly were high in 1991-92 and in 1994-95 when the stock markets were at their peak and fell dramatically in the following periods when the financial markets did not fare well.

Please refer Annex D for details

2.3.2 Investment pattern by Geography

Available data indicates that retail investment is highly concentrated in general, but more so in the case of stock market investments.

RBI statistics compiled on the basis of quarterly returns received from various scheduled banks show that

The top 50 banking centres have more than 50% of the total bank deposits
The top 10 banking centres have about 40% of the total bank deposits
The 20 banking centres where we have stock exchanges (excluding Sikkim), account for about 43% of total bank deposits

Please refer Annex D for details

Prime Database a Delhi based organisation which monitors primary market investments (both equity issues and debentures) according to issue size, nature of instrument investment centre etc reports that primary market investments are concentrated in metro centres and stock-exchange cities We provide below the main findings of the database on primary market investments for the financial year 1996-97 by area

The four metros and Ahmedabad contributed more than two-thirds of total investments in the primary capital markets
The Western zone (Goa Gujarat Maharashtra and Rajasthan) accounted for more than 40% of total investments in the primary markets
Southern India (AP Kerala Karnataka and Tamil Nadu) has the lowest share (10.05%) in the primary market investments
The 20 investment centres where there are stock exchanges (excluding Sikkim), contribute about 80% of total investments in the primary capital markets

Please refer to Annex D for details on main primary market investment centres

The Shareowners' Geographic Distribution a study published in 1994 noted that share-ownership in India is an urban phenomenon According to this study there were only 2.5% shareholding households in India and 10% shareholding households in urban areas The following are some of the main findings of the study

- During 1992 55% of India's shareowners belonged to Mumbai Calcutta Delhi Ahmedabad and Madras
- The equities market had not penetrated the semi-urban and rural areas Below one lakh population towns accounting for over 80% of the population accounted for only 11.5% of India's shareowners
- The states of Maharashtra and Gujarat accounted for over 50% of the country's shareowners though their share has been on the decline
- The share ownership incidence figures are 1.5% for all India and 5.8% for urban India The figures were 28.9% for Ahmedabad and 27.2% each for Mumbai and Vadodra
- Shareowner and Debenture-owner distribution was found to be similar
- The geographic distribution of UTI unitholders was found to be much wider than that of shareowners
- Investors have an attraction towards issues of companies belonging to the same

region in which they reside

2 4 Profile of retail investors

2 4 1 Studies available

Among the few studies available on the subject are Indian Shareowners – A survey (1991) conducted by the Delhi based Society for Capital Market Research and Development This study is almost the only one of its kind and provides some useful information about shareowners The study however does not separately identify and profile secondary market investors (as compared with primary market investors) As such the findings are of limited use in understanding the service level requirements of secondary market investors and gaps in satisfaction of these requirements The key findings of this study provide the following information about the retail shareowner in India at that time

2 4 2 Size

According to the study¹⁰ on Indian shareowners published in 1991 there were around 3 8 million households¹¹ and about 9 million shareowning individuals in 1990 On an average a shareowning household had 2 3 members with shares/ debentures in their names

The ownership of equity shares among Indian households has shown the sharpest rise during the 1980s as compared to the earlier two decades with number of equity shareowners more than trebling between 1980 and 1990 The total shareowning households among the 'relevant population segment' which was defined for the purpose of the survey as the 'educated middle and upper class' of households who have a capacity for financial savings were estimated to be 38 5% However in overall terms shareownership was found to be confined to a narrow fringe of the total Indian population Only about 2 5% of the Indian households owned shares with shareownership in rural areas being insignificant in overall terms Among the urban households about 10% of the population owned shares

2 4 3 Income

The study noted that a significant financial development of the Indian stock markets during the eighties was that shareownership became a middle class phenomenon Investment in securities moved from being the pursuit solely of the wealthy classes as was the case in the sixties and seventies to a larger investment base including the educated middle and the upper middle class It was observed that nearly 40% of the educated middle and upper class households held shares/debentures in 1990

Study findings indicated that the majority (nearly three-fourths) of shareowners

¹⁰ An all India survey conducted in 1990-91 this study had a sample size of 6000 households

¹¹ It was felt that it is better to treat a household (nuclear family normally comprising husband wife and dependent children) as the unit for studying saving and investment habits and therefore the household head as the decision maker was the focus of the Indian Shareowners study published in 1991

belonging to income classes below Rs 5 000 per month entered the share market only after 1985. On the other hand a substantial proportion of shareowners belonging to the income classes above Rs 5 000 per month had entered the share market before 1980.

On the whole Indian shareowning households were found to be predominantly (to the extent of 75%) composed of middle class households with incomes in the range of Rs 2 500-10 000 per month with the median income being about Rs 62 000 per annum. Thus the typical shareowner of 1990 was found to have lower income compared to the typical shareowner 10-15 years prior to him. This implied that a much wider class of people began investing in shares.

2.4.4 Age Distribution

The study concluded that in terms of average age the Indian shareowning population is becoming younger. The median age of shareowning population in India was 37 years in 1990 having come down from 44 years in a decade from 1980. This clearly points towards the entry of younger investors during this period in the share market. About 30% of the Indian shareowning households were young households where the household head was aged below 30 years. On the other hand shareowners aged 60 years or more constituted about one-eighth of all Indian shareowners.

2.4.5 Education

The study noted that there was a direct relationship between the level of education and the incidence of share ownership. The incidence of shareownership increased with the level of education. Incidence of share ownership among the middle and upper income households varied from being about 45% for graduates and above to little less than 16% for those with partial schooling (non-matriculates) and over 27% for those with pre-university education.

2.4.6 Occupation

The study results showed that more shareowning households were found among the self-employed category than the salaried one. Further, the corporate executives within the salaried class and the professionals within the self-employed class were the more prominent shareowning groups.

The incidence of share ownership among the salaried class was almost similar to that among the self-employed in aggregate terms. While nearly 4 out of every 10 among the salaried class owned shares among the self-employed. This figure was slightly over 4 among the retired people one out of every two owned shares indicating higher than average incidence.

Among the sub-categories of the self-employed class those in professional practice had the highest incidence followed by those engaged in small-scale industry. Traders and other businessmen had lower than average incidence of share ownership.

Within the salaried class the corporate sector employees had the highest incidence of

share ownership (6 out of every 10) followed by the employees of banks and financial institutions (1 out of every 2)

Some differences were also noticed in the incidence of share ownership among specific professional groups (irrespective of their being in service or self-employment) While Chartered Accountants and Cost Accountants as a group had the highest incidence (with more than 3 out of every 5 of them) this proportion was a little over 1 out of every 2 in the case of law and engineering graduates, and 4 out of every 10 in the case of medical graduates

3 RFI's Overview and Market Structure

In this chapter we have presented a brief picture of the mix of respondents met during the survey along with the market structure that emerges. The following issues are addressed:

- Respondent Mix
- Instruments Dealt with
- Income trends since 1994-95 and Income from different Instruments and
- Market Structure

3.1 Respondent Mix

All respondents were handed cards on which product market categories were listed. Respondents were asked to identify the categories to which they belonged. Multiple responses were allowed.

Except for Secondary Market Brokers who are members of stock exchanges there is no definitive basis on which the RFIs can be classified. As such we decided to categorise RFIs on the basis of their own perception of who they are. The final mix of Respondents that emerged on the basis of how respondents classified themselves was as follows:

Of the 1198 completed questionnaires (372 Brokers and 826 Sub-brokers) 858 (72%) of the respondents saw themselves as falling in one of the following categories:

| | | |
|---|-----|-------|
| Only Primary Market Brokers (Only PMB) | 40 | (3%) |
| Only Primary Market Sub-Brokers (Only PMSB) | 46 | (4%) |
| Only Secondary Market Brokers (Only SMB) | 233 | (20%) |
| Only Secondary Market Sub-Brokers (Only SMSB) | 247 | (21%) |
| Only Fixed Deposit Agents (Only FDA) | 292 | (24%) |

It may be noted here that RFIs who categorise themselves as belonging to a particular category may be active in other roles also (Brokers may also be active as Sub-brokers in other market segments or as brokers in segments not covered in the survey. For instance, Only PMBs may be active in other segments as SMSBs, FDAs etc. or may be Fixed Deposit Brokers).

The balance 340 (28%) saw themselves as falling in more than one of the above categories:

| | | |
|-------------------|----|-------|
| PMB + SMB | 99 | (8%) |
| PMSB + SMSB | 61 | (5%) |
| PMSB + FDA | 61 | (5%) |
| SMSB + FDA | 48 | (4%) |
| PMSB + SMSB + FDA | 71 | (6%) |

Though the focus of the survey was restricted to the above categories we observed that a number of the intermediaries including brokers as well as sub-brokers also identified

themselves as Fixed Deposit Brokers or Agents of UTI SBI and LIC

If we examine the respondent profile from the perspective of the markets the intermediaries perceive themselves to belong to the mix is as follows

Table 3.1 Respondent Profile by Market Segment

| | Primary Market | Secondary Market | Fixed Deposit |
|-------------|----------------|------------------|---------------|
| Brokers | PMB=139 | SMB=332 | Not covered |
| Sub-brokers | PMSB=239 | SMSB=427 | FDA=472 |

The number of intermediaries by their respective market segments presented above includes overlaps between categories and has been used primarily to present market specific issues. As such, whereas individual profiles of RFIs have been presented using the findings for mutually exclusive categories (Only PMB, Only SMB, PMB+SMB, Only PMSB, Only SMSB, Only FDA, PMSB+SMSB, PMSB+FDA, SMSB+FDA, and PMSB+SMSB+FDA), market related issues (including market structure, intermediary and client relationships) have been presented using the findings for the different market related categories (PMB, SMB, PMSB, SMSB and FDA).

The base number of respondents mentioned above for the different categories have been used for the entire report unless mentioned otherwise.

3.2 Instruments Dealing with

All the respondents interviewed for this study were handed over a card on which were listed names of selected Financial Instruments. They were asked to go through the names and mention the names of those instruments they dealt with during the peak period of 1994-95. Subsequently they were asked to mention the names of all the instruments that they are dealing with at present.

3.2.1 Brokers

Examining the products distributed by the brokers, we observe that the overall number of Brokers dealing with Primary Issues, UTI and other Mutual Funds and Private Placements decreased significantly since the peak period of 1994-95. In particular, only 33% of all brokers dealt with Primary Issues as against 60% during the peak. Amongst only SMBs, whereas 40% used to deal with Primary Instruments during 1994-95, a negligible 4% are currently doing so.

Chart 3 1 Products dealt with in 1994-95 - Brokers

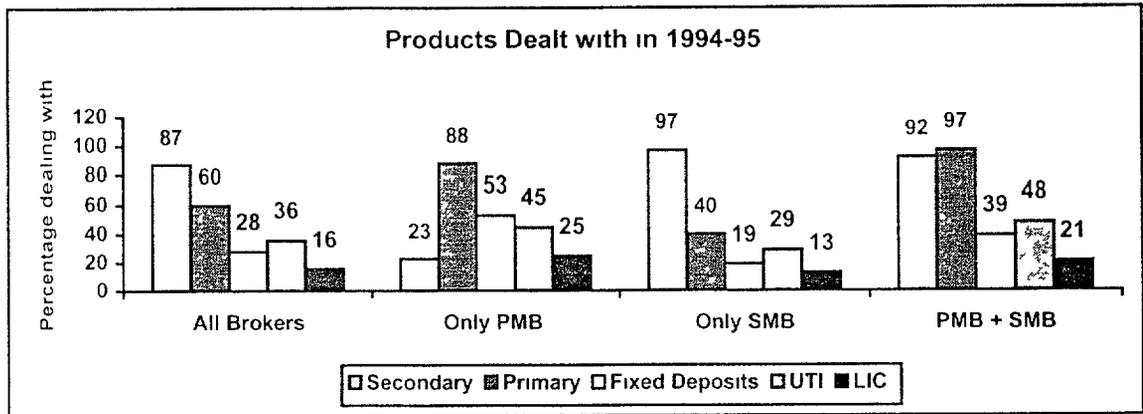
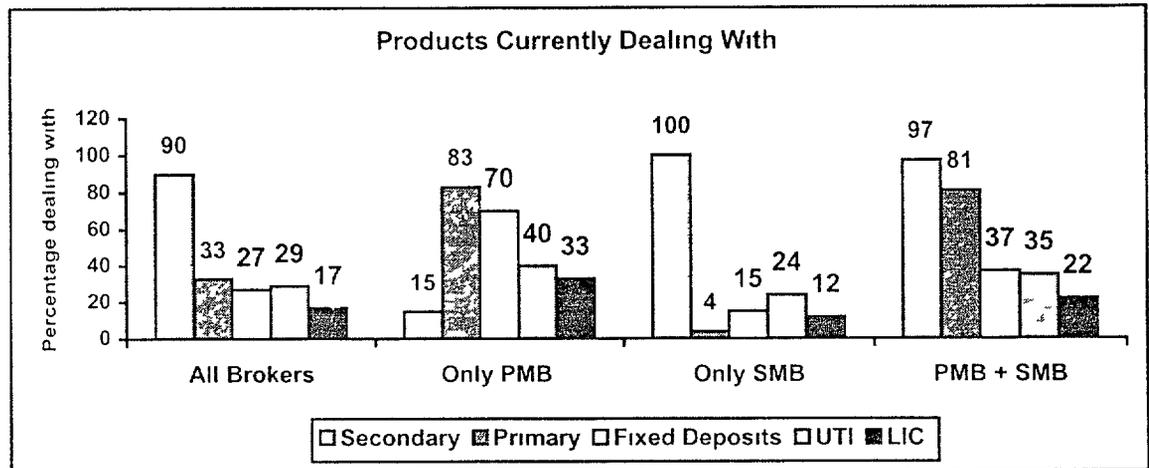


Chart 3 2 Products Currently Dealing with - Brokers



It is also significant that 17% of those who see themselves only as PMBs did not currently deal in Primary Instruments. This category seems to have turned to Fixed Deposits with 70% of these respondents reporting that they were currently dealing in Fixed Deposits.

3 2 2 Sub-Brokers

Examining the product portfolios of the sub-brokers we observe that on an aggregate, a larger number of Sub-brokers are active in a wider range of financial instruments as compared with Brokers particularly in the non-capital market instruments like fixed deposits and life insurance. The following charts provide a brief overview of the products dealt with by the different categories of sub-brokers

Chart 3 3 Products dealt with in 1994-95 – Sub-brokers

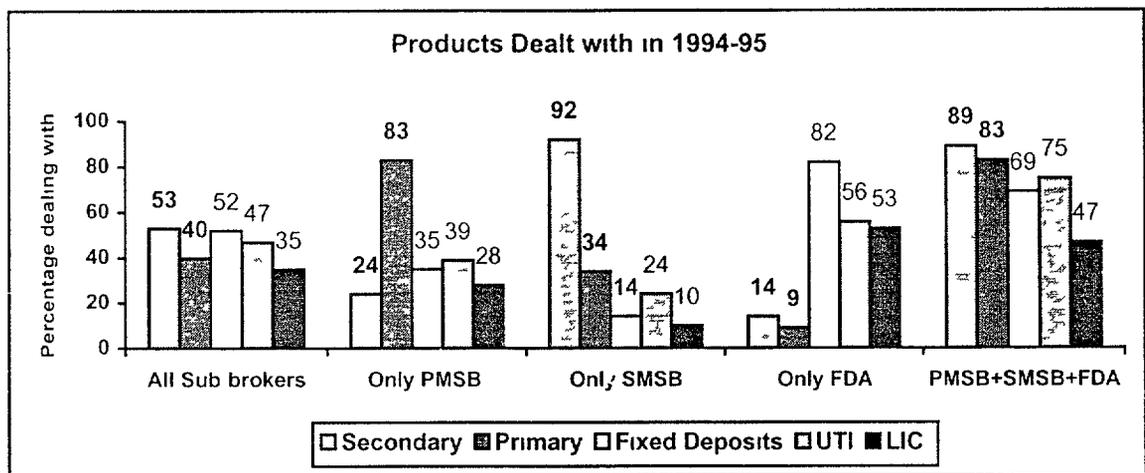
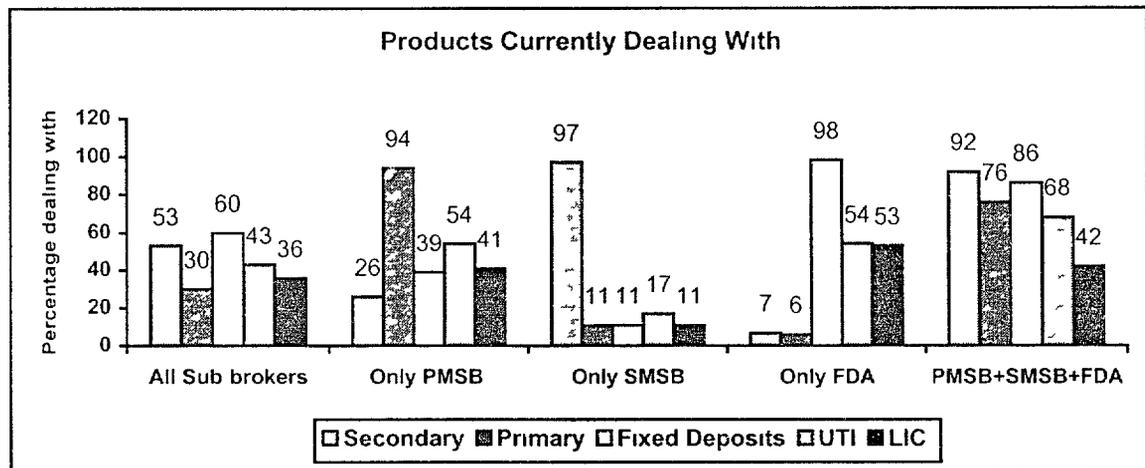


Chart 3 4 Products Currently Dealing with – Sub-brokers



As can be observed from the above chart Sub-brokers who see themselves only as

SMSBs are the most focussed¹² dealing primarily with secondary market instruments. A large percentage of Sub-brokers who see themselves only as PMSBs deal in other products including UTI schemes (54%), Life Insurance Policies (41%) and Fixed Deposits (39%). A large proportion of Sub-brokers who see themselves only as FDAs are likely to be UTI and LIC agents as around 53% deal with UTI / LIC instruments. Examining the product portfolios of the category of sub-broker who deal in Primary, Secondary and Fixed Deposit Instruments as expected, a high proportion of them deal with a range of instruments.

If we examine the trend since the peak period of 1994-95 we observe that, for all categories of sub-brokers whereas the overall percentage of sub-brokers dealing with Primary Issues has declined from 40% to 30%, there has been an increase (from 52% to 60%) in the number of sub-brokers dealing with Fixed Deposits. As was expected, the number of Only SMSBs dealing with Primary Issues registered a decline from 34% to 11%. There was a significant increase in the number of FDAs over the period with only 78% of the existing FDAs dealing with Fixed Deposits during the peak period.

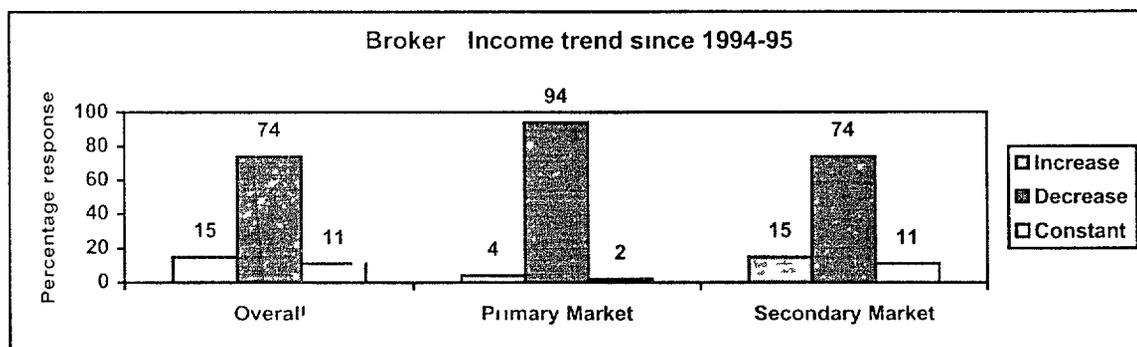
3.3 Income trends since 1994-95 and income from different Instruments

Respondents were asked as to whether the overall income had decreased, increased or remained the same as compared to the market peak? In addition to the overall income, those respondents who dealt with more than one type of instrument were also asked about the status of their income from their primary business alone. Respondents were also asked to provide a break up of income by the different products they dealt with.

3.3.1 Brokers

The vast majority of Brokers (74%) had registered a decline in their overall income since the peak period of 1994-95. However, around 15% of the brokers registered an increase in their overall income. The following chart highlights the differences in the income trend for brokers on the whole and for the Primary Market and Secondary Market operations.

Chart 3.5 Income trend since 1994-95 - Brokers



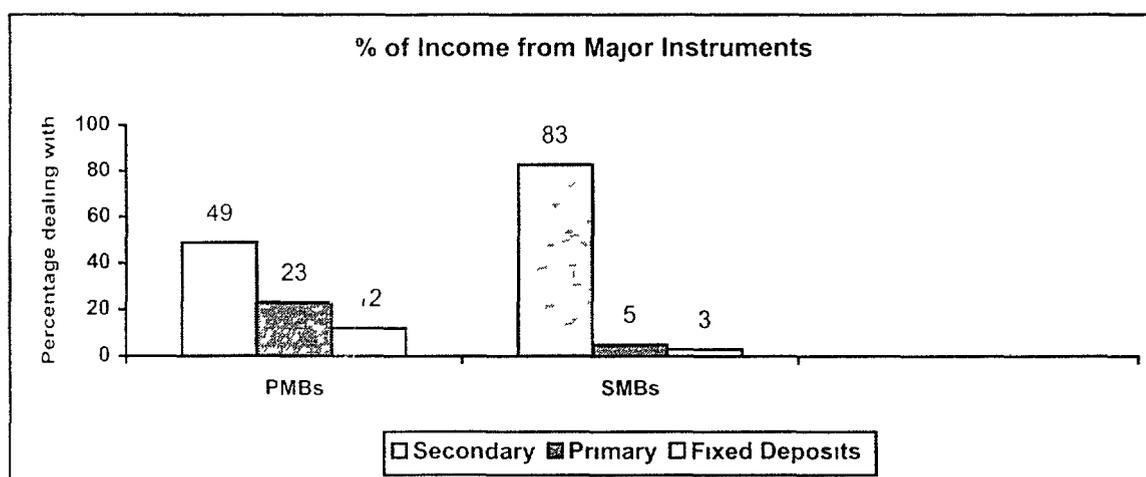
¹ Only 97% and 98% of Only SMSBs and Only FDAs dealing with their core products may be explained either by an RFI dealing with the product in the past and hence not reporting it currently or by a recording error.

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The overall business decline follows the trend shown by the secondary market, as a large number of intermediaries are deriving the major portion of their income from this market. However, 94% of the brokers in primary market stated that their income¹³ from the Primary Market had declined, which is in keeping with the expectation on account of the decline in number of primary issues since then. The key reason attributed for the overall decline in income has been "Poor Market Conditions" (characterised by the lack of investors, volatility in the market and falling prices).

If we examine the income split by the various product categories, we observe that amongst PMBs, around 50% of their income comes from the Secondary Markets, whereas 83% of the income of SMBs comes from the Secondary Markets. The following chart presents the major sources of income for the different categories of brokers.

Chart 3.6 Income split by Instruments - Brokers



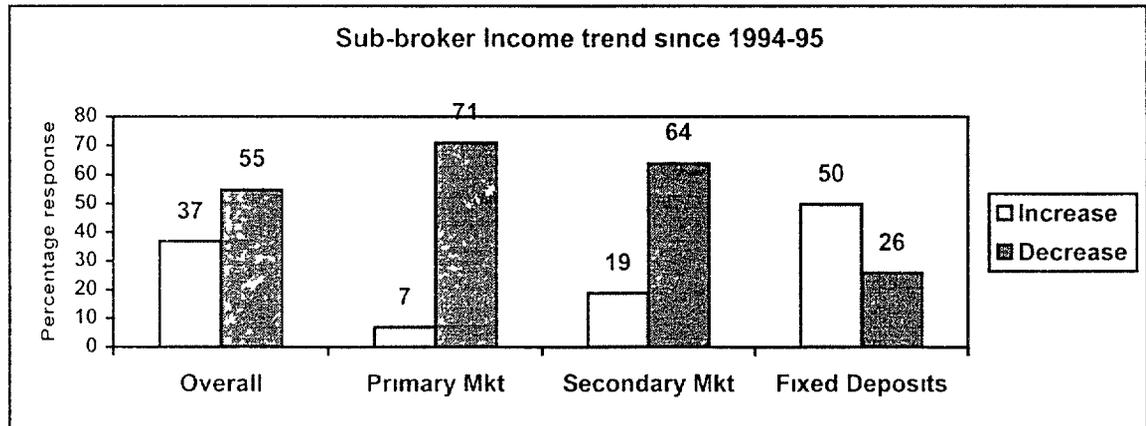
The balance income being contributed by other products including UTI schemes, other Mutual Funds, LIC products, Tax saving products, etc.

3.3.2 Sub Brokers

Approximately 55% of all sub-brokers stated that their incomes had decreased, whereas 37% stated that their incomes had increased. These figures vary from that of the brokers, on account of the role played by the Fixed Deposit segment, which has reported a high incidence of increased income since 1994-95. The following graph presents the trend in income for sub-brokers.

¹ Please note that the balance either stated that incomes were the same as 1994-95, or were unable to comment or recording error. We have presented the data as such.

Chart 3 7 Income trend since 1994-95 – Sub-brokers



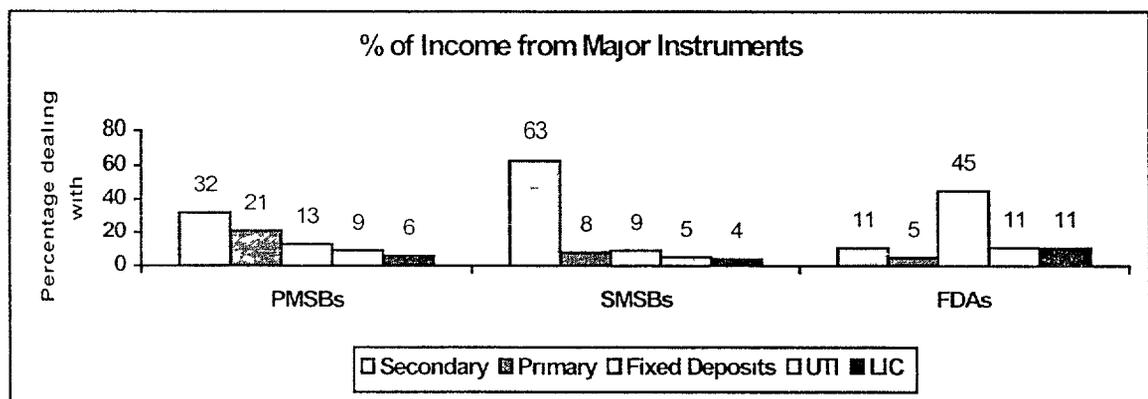
Please note that the balance either had constant income or did not respond

Even though the overall income has shown a declining trend (55% of all sub-brokers), the phenomenon is even more pronounced for income from the secondary markets (64%) and primary markets (71%) FDAs however reported an increase in their income since 1994-95

If we examine the reasons given by sub-brokers for the decline in their overall business, the one reason that stands out once again is 'Poor Market Conditions' Other reasons included 'Fewer investors in the Market' and 'Economic Slow-down / Political Uncertainty'

If we examine the income split by different instruments we observe that for SMSBs as a whole their major source of income is the Secondary Market (63%) with other contributions being relatively marginal However PMSBs also depend on Secondary Markets Fixed Deposits and UTI schemes for their Income FDAs depend primarily on Fixed Deposits as a source of income

Chart 3 8 Income split by Instruments – Sub-brokers



3.4 Market Structure

In order to gain an understanding of the market structure, brokers and sub-brokers were asked a number of questions regarding the number of intermediaries and the relationships across and within different categories of intermediaries

The questions included

- The number of corporates / merchant banks primary brokers are associated with?
- Which stock exchange the brokers are members of?
- Whether transactions are conducted through brokers on other stock exchanges of which they are not members?
- Estimates of intermediaries by category, active in the markets during the peak period of 1994-95 during the period of the survey and 2-3 years in the future. Intermediaries were also asked reasons for their opinion on the future. Respondents were asked these questions for all the segments they identified themselves as belonging to
- The number of Sub-brokers / agents working with RFIs
- The number of direct individual clients they were working with

The following section has been presented separately for the different market segments covered in the survey

3.4.1 Primary Markets

The depressed conditions of the Primary Markets presents a picture at its lowest ebb. As such survey findings relating to relationships between the different levels of intermediaries may be considered only as indicative. The survey findings for the key elements in the structure of the Primary Market are presented below

The Primary Market is characterised by a multiplicity of relationships. Further, the survey indicates that there are at least three levels of intermediaries (PMBs, PMSBs and Sub-sub-brokers/agents working with PMSBs) even in the prevailing market conditions

- **Merchant Banks (MBs) and Corporates work with both PMBs as well as with PMSBs**
 - Of the 59 PMBs (42% of all PMBs) who responded to this query the average number of MBs associated with was reported to be 15
 - Of the 54 PMBs (39%) who responded to this query the average number of Corporates associated with was reported to be 14
 - Of the 40 PMSBs (17%) who reported an association with MBs the average number of such associations was 1.8
- **PMBs work with PMSBs but also service clients directly**
 - Only 35% of PMBs reported that they have PMSBs currently working with them. Amongst these respondents (49) the number of PMSBs per PMB range between 2 to more than 500

- It was however, surprising to note that PMBs (311) reported an average of only 16 direct individual clients¹⁴
- **PMSBs work with MBs and PMBs at the supply end, and additionally, take the assistance of Sub-sub-brokers at the demand side to service their clients**
 - Of the 194 PMSBs (81%) who reported an association with PMBs the average number of such associations was 4.1. Seventy six percent of these PMSBs were working with 1 to 4 brokers
 - Twenty two percent of the PMSBs reported sub-brokers working with them in the Primary Market. However fifty two percent of PMSBs also had clients / agents who brought in additional business
 - PMSBs reported dealing with around 500 direct individual client on an average with the Only PMSBs reporting an average figure in the range of 800 direct individual clients

On the basis of the citywise estimates made by Primary Market Intermediaries, the number of Primary Market Intermediaries currently active in Stock Exchange towns across India is estimated to be in the range of 1,200 PMBs and 3,500 PMSBs. A further 4,500 to 7,000 PMSBs are estimated to be active in non Stock Exchange towns with a population greater than 100,000

- Overall estimates of active PMBs have fallen from approximately 2,350 in 17 stock exchange cities (where we received responses from PMBs) during the peak of 1994-95 to the current estimate of 1,050 in those cities. Based on these estimates we project the number of PMBs across India to be around 1,200
- Based on responses provided by PMSBs we estimate the number of active PMSBs (including Sub-sub-brokers) in Stock Exchange towns across India to be in the range of 3,500. Taking into account the limited responses in Class I towns we estimate the total number of PMSBs in all towns with a population greater than 100,000 to be in the range of 8,000 to 10,500. The coverage of the survey was inadequate to comment on the number of PMSBs in the 358 towns with a population between 50,000 and 100,000
- Some specific observations on the citywise estimates are as follows
 - In most cities PMBs estimated a significant decrease (by 56% on a consolidated basis for the cities reported) in the number of PMBs active in the market
 - Mumbai was the only city where the PMBs estimated that their numbers had remained unchanged
 - Other cities where the estimated decrease (in % terms) in PMBs was less than average included the larger metros of Calcutta, Bangalore and Delhi, along with the Western towns of Ahmedabad and Baroda. However Chennai surprisingly reported a 65% decline in the number of PMBs
 - PMSBs had recorded an even higher decrease in numbers of active PMSBs (decrease of 74% over the estimates of the peak period for the cities reported) as compared to PMBs. Cities where the decrease has been reported to be most significant include the Northern towns of Ludhiana and Jaipur and the Southern towns of Bangalore, Hyderabad, Vijayawada and Cochin. The metros of Calcutta and Chennai have reported a decrease of more than 75% whereas Mumbai and

¹⁴ PMBs may have under reported their number of direct clients. This may be because in the current situation of limited primary clients they have mentioned only those clients who they regularly deal with.

Delhi have reported a decrease of around 20%

Citywise estimates of PMBs and PMSBs are provided in the Charts below, while details are provided in the Annex D

Chart 3.9 Estimates of Active Primary Market Brokers

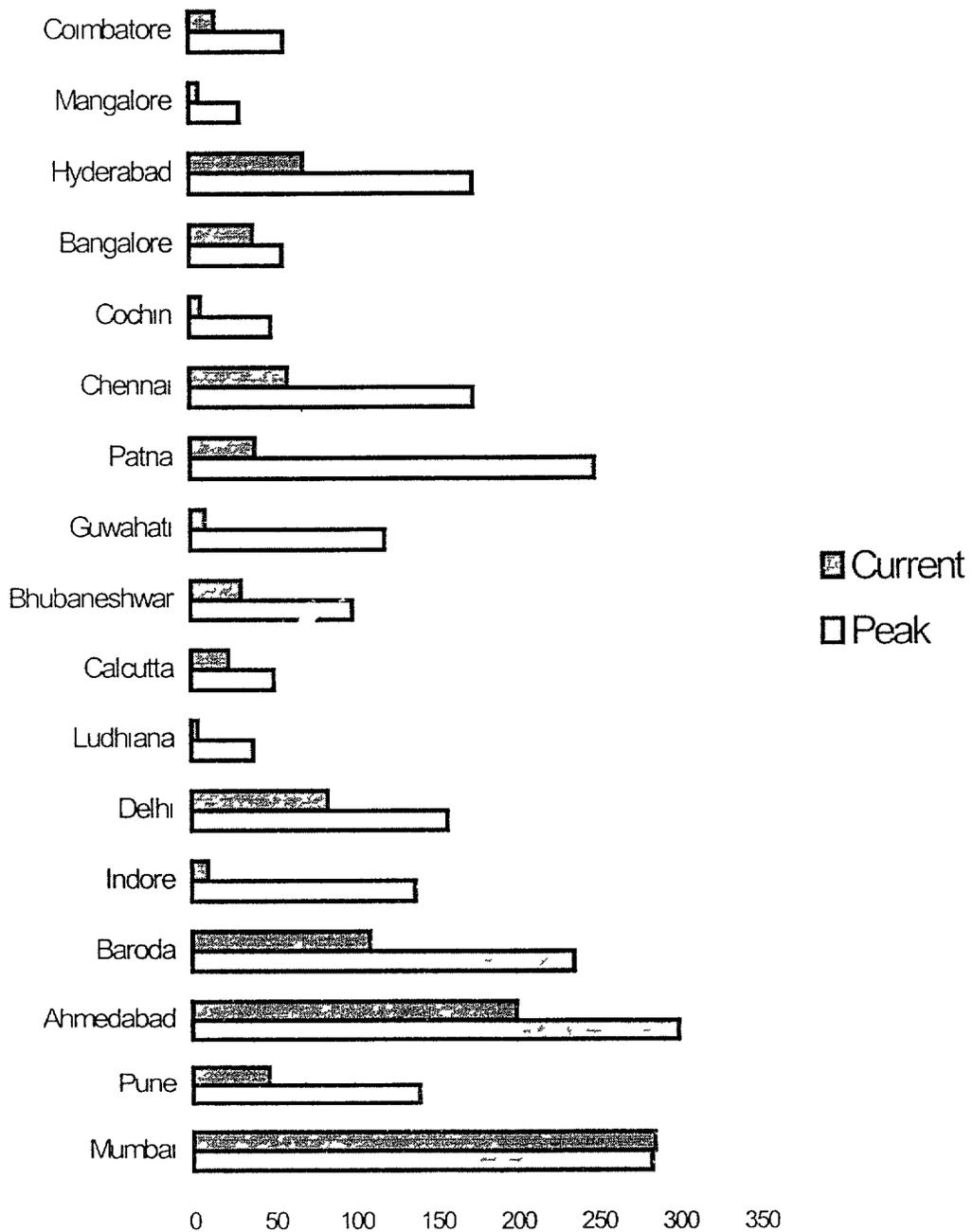
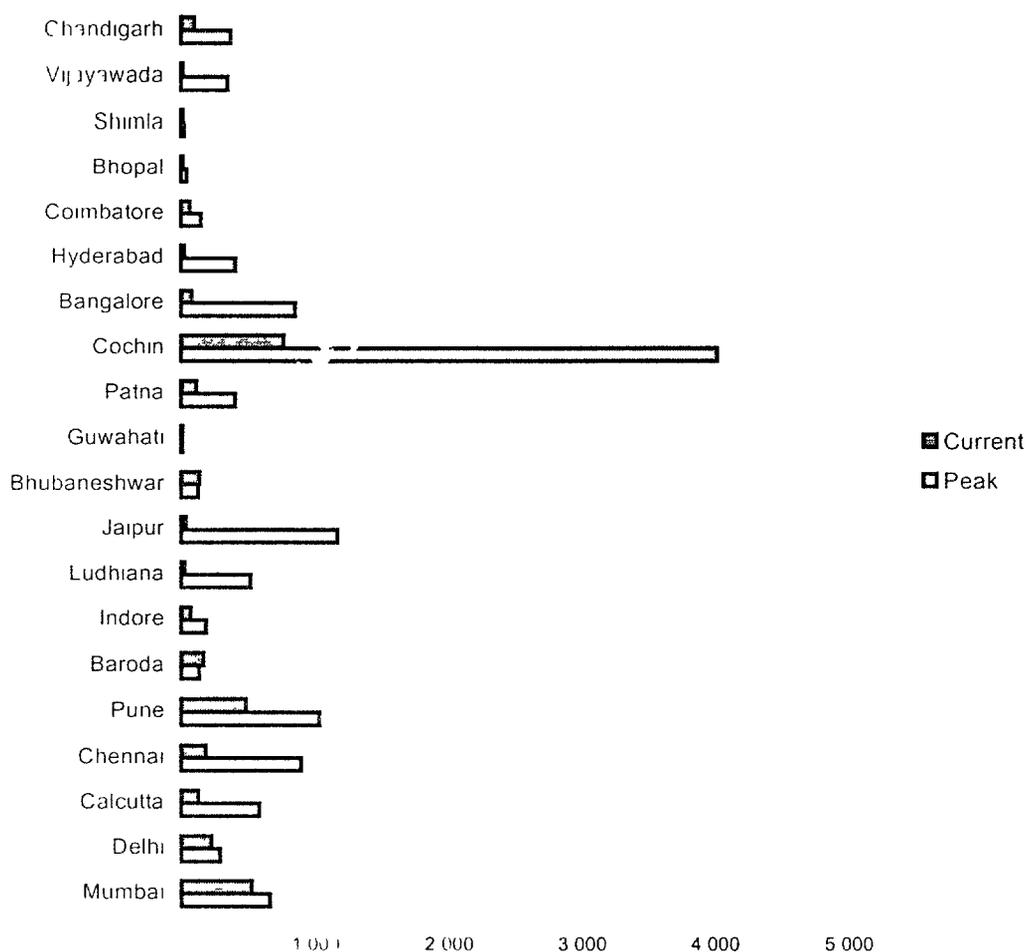


Chart 3 10 Estimates of Active Primary Market Sub-brokers



While using these estimates to project the figures across India, we have made the following assumptions

- PMBs operate primarily in Stock Exchange towns
- For the purpose of this study we have estimated the number of PMSBs operating in towns with a population greater than 100 000 only. It may be noted that the number of responses even for non Stock Exchange towns with a population greater than 100 000 were limited and the estimates provided are merely indicative and not conclusive

3 4 2 Secondary Markets

The survey findings for the key elements in the Secondary Market are presented below

The secondary market is also characterised by a high degree of interlinkages and a multiplicity of relationships. Again, at least three levels of intermediaries were reported to be operating in the market

- **SMBs reported being members of more than 1 stock exchange, as well as working with brokers on stock exchanges they are not members of**
 - In addition to being members of their respective city stock exchanges 73 (22% of all SMBs met) SMBs reported being members of the NSE. Seventeen SMBs (5% of all SMBs met) from different cities across the country (other than Mumbai) were also members of the BSE. The respondent profile included a few SMBs in Calcutta, Chennai and Delhi who were also members of other smaller stock exchanges in their respective regions. There were also a few instances reported of SMBs in Delhi being members of Calcutta and Chennai stock exchanges.
 - Fifty five percent of SMBs met transact business through SMBs at stock exchanges they are not members of. Amongst these the NSE is the most prominent with 75% of these SMBs saying that they transact business on it. The other prominent stock exchanges on which brokers transacted business where they were not members included Mumbai (58%) and Calcutta (19%).
- **Though SEBI requires that all SMSBs be registered with SEBI[#], and that SMSBs work only with a single SMB, the survey findings appear to indicate that market practices are otherwise** (The key findings related to the Registration issue have been discussed separately in Chapter 5)
 - Only 40% of SMBs acknowledged that they had SMSBs working with them. Amongst these respondents (132) the number of SMSBs per SMB works out to 17. Again only 38% of these SMBs (50) reported having registered their sub-brokers. The percentage of SMBs having SMSBs may actually be higher than what was reported in the survey on account of the SMBs not willing to acknowledge that they were not implementing the SEBI rule regarding registration of sub-brokers.
 - 53% of SMSBs reported an association with more than one SMB. For those SMSBs associated with multiple SMBs the average was 3.6 SMBs.
 - Around half the SMSBs had clients / agents bringing in additional secondary market business.
- **The SMSBs service a larger client base as compared to SMBs**
 - Whereas SMBs reported an average of only 13 direct individual clients, SMSBs reported around 215 direct individual clients. Only SMSBs reported around 140 direct individual clients. As such as SMSBs expand their product portfolios they directly service a higher number of individual clients.

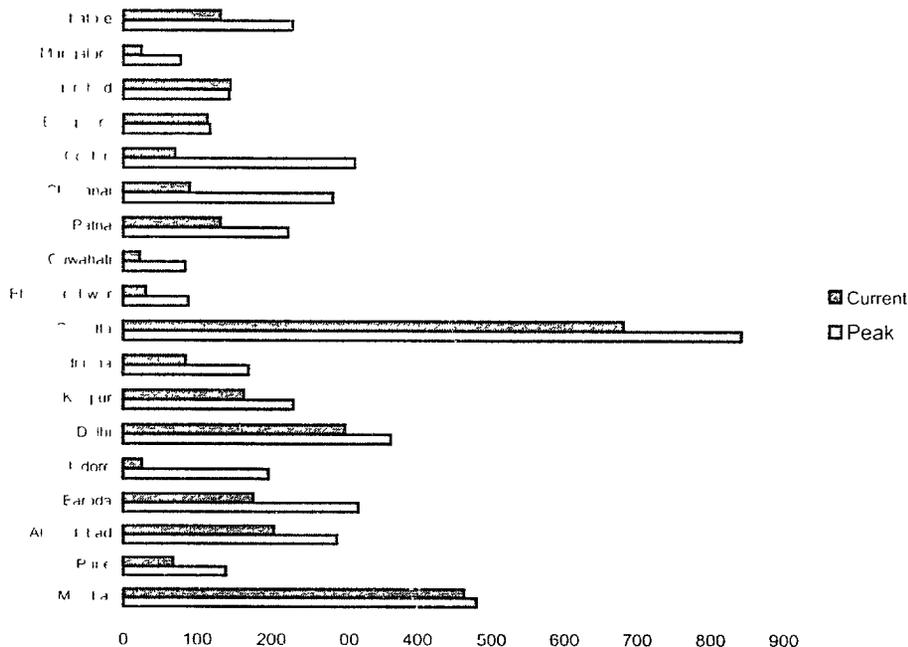
On the basis of the citywise estimates made by Secondary Market Intermediaries, the number of Secondary Market Intermediaries currently active across India is

[#] As on March 31 1997 only 1798 sub-brokers were registered with SEBI though current estimates are in the range of 4 000.

estimated to be in the range of 3,500 SMBs and 20,000 SMSBs

- The overall number of Registered SMBs at 21 city stock exchanges and the NSE is around 7 500 As reported in the survey we expect that there would be a degree of overlap here as there is the phenomenon of Brokers being registered on both the NSE/BSE as well as city stock exchanges There is again the phenomenon of Brokers being registered at multiple city stock exchanges
- Overall estimates of active SMBs have fallen from 4 600 in 18 stock exchange cities (where we received responses from SMBs) during the peak of 1994-95 to the current level of approximately 3 000 The number of registered brokers in these towns as reported in the Prime Directory is in the range of 6 000 (including NSE Brokers) As such it is observed that the brokers perception of the number of active brokers is at variance to the number of brokers registered at the stock exchanges
- Overall the reported number of active SMSBs in 32 towns surveyed has declined from the high of approximately 27 500 during the peak years of 1994-95 to the current levels of 12 700 The decline in the overall numbers reported in these cities is significant (54% decline)
- Taking into account the above estimates, and assumptions similar to those made while projecting PMBs/PMSBs we estimate that the number of active SMBs across India are in the range of 3 500 and the number of active SMSBs across India are in the range of 20 000

Citywise estimates of SMBs and SMSBs are provided in the Charts below
 Chart 3 11 Estimates of Active Secondary Market Brokers

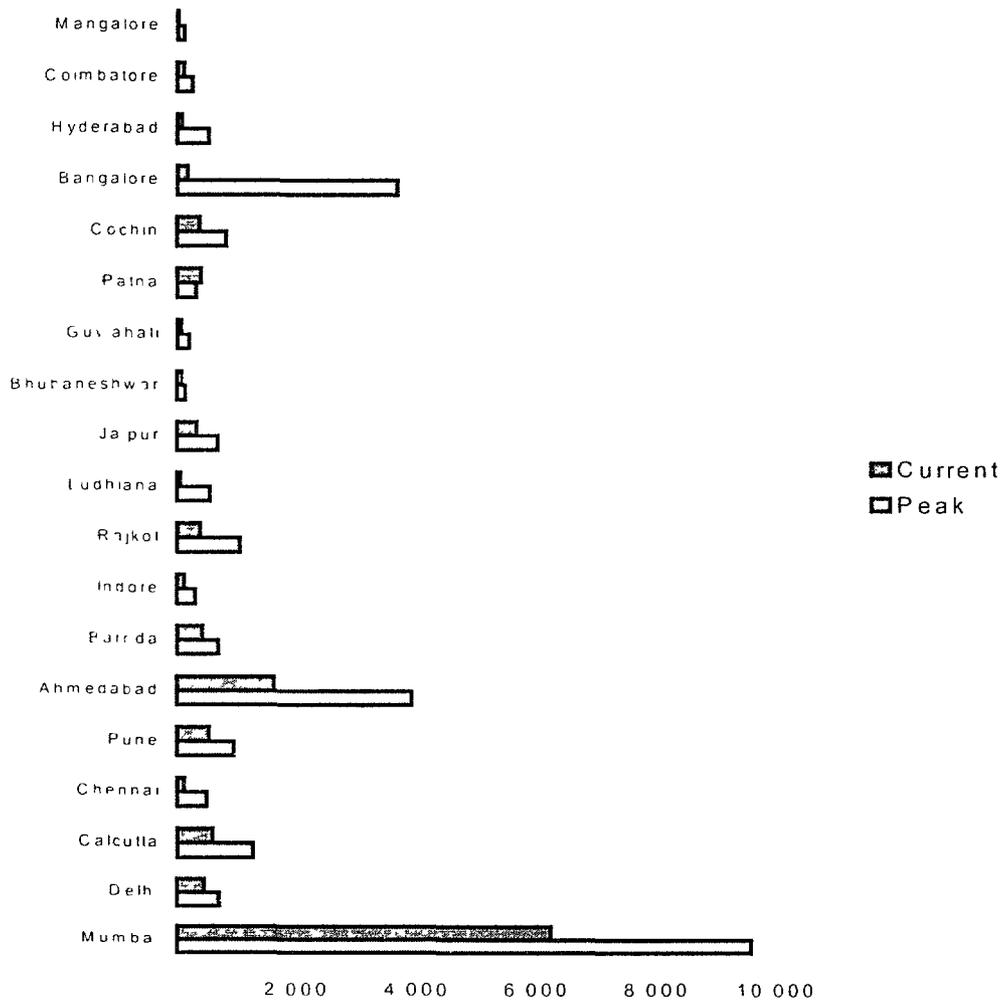


Source: The Prime Directory 1997 Excluding the C C Exchange

Some other observations on the estimates provided by SMBs are as follows

- The metros of Mumbai Delhi Calcutta, Bangalore and Hyderabad recorded the lowest decline in the number of active SMBs
- The South and East reported a high decrease in the number of active SMBs with Chennai Cochin Mangalore Bhuvaneshwar and Guwahati reported a decline in absolute numbers which was greater than 60%
- If we compare the number of active SMBs with those reported to be members of the different stock exchanges¹⁵, Calcutta, Delhi and Mumbai reported a difference of less than 20% whereas the average difference across the reporting towns was 47%
- A number of smaller Stock Exchange towns across the country (Pune Indore Kanpur Ludhiana Bhubaneshwar Guwahati Cochin and Mangalore) reported a difference of more than 60%

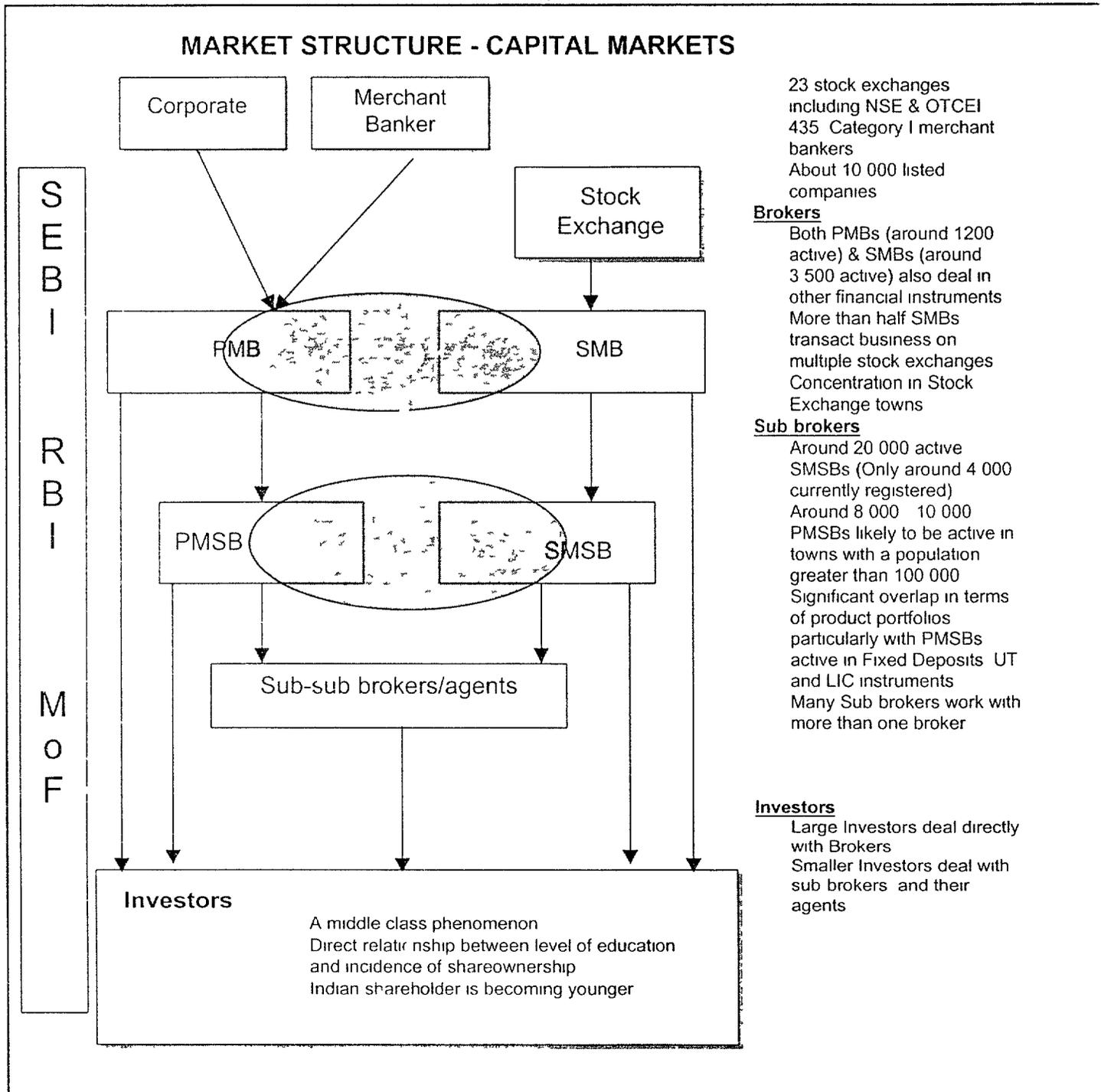
Chart 3 12 Estimates of Active Secondary Market Sub-brokers



3 4 4 Overall Structure of the Capital Market

Having presented the market structures in the individual segments (Primary and Secondary) we would like to emphasise that the survey findings indicate a large degree of fluidity between the intermediaries operating in these market segments This is substantiated by the profiles of the respondents (as they see themselves), as well as the products they deal with The overall structure that emerges is presented below

Chart 3 14 Overall Structure of the Capital Market



3.5 Future Expectations

Primary Markets

Sixty nine percent of PMBs met expect the number of active PMBs to decrease over the next two to three years. The major reason quoted for the decrease being bad market conditions (31% of such PMBs). A review of the List of Top Primary Issue Procurers¹⁶ shows an increasing incidence of Merchant Banks in the top fifty league.

Seventy one percent of PMSBs met expect the number of active PMSBs to decrease over the next two to three years. The major reason quoted for the decrease being they are no good new issues coming up (25% of such PMSBs). Amongst the 14% PMSBs who expected their numbers to increase the major reason for their optimism was the hope that the market will do well in the coming years (55% of such PMSBs).

As such the primary market intermediaries are quite pessimistic about the Primary Markets and around 70% of the Intermediaries who identify themselves with the market expect their numbers to decline.

Secondary Markets

Sixty three percent of SMBs interviewed expect the number of SMBs to decrease in the future. The major reasons mentioned for this being 'due to uncertain / fluctuating market conditions' and 'due to new stringent rules and regulations from SEBI' (36% and 15% respectively of such SMBs). Amongst the 22% respondents who expected the number of SMBs to increase over the next two to three years the major reason provided was a belief that the market would improve (50% of such SMBs).

Seventy one percent of SMSBs interviewed expect the number of SMBs to decrease, and the major reasons mentioned for this being 'due to uncertain/fluctuating markets' (35%), clients having lost faith in sub-brokers (11%) and 'due to new stringent rules and regulations from SEBI' (10% of such SMSBs). Only 20% of SMSBs met expect their numbers to increase. The major reasons provided for the same were "stable government" (39%), a belief that market conditions would improve (32%) and that more professional people will join this business (11% of such SMSBs).

The intermediaries in the Secondary Markets are currently almost as pessimistic about the overall future of Secondary Market Intermediaries as the Primary Market Intermediaries.

Fixed Deposits

The key findings about the expectations with regard to the number of FDAs in the future are presented in the table below. On the whole FDAs are more optimistic about the future than the capital market intermediaries.

¹ Source: Prime Database

Table 3 2 Future Expectations of FDAs

| | FDA | Reasons |
|-----------------|-----|--|
| Increase | 65% | Responses fragmented with 30% not providing any reason |
| Decrease | 25% | <ul style="list-style-type: none"> • People have lost faith on account of the scams (32%) • Due to unstable market conditions (31%) • Due to bad performance of companies (13%) • So many people have lost money and are not ready to take risks (16%) • Due to a decline in interest rates (12%) |
| Remain the same | 10% | |

Overall RFIs are rather pessimistic about the need for their services in the future. However, we also queried their intentions to continue with their broking/finance profession in the future, and more than 75% of RFIs reported that they saw themselves as likely to continue in this profession despite the odds. Details are provided in Section 4.4.

4 RFI Profile

This chapter deals with the profile of the respondents, both at the level of an individual and as a business entity

The individual retail financial intermediaries interviewed during the survey were asked a series of questions about their background the choice of career, years spent in the profession and their intentions of continuing in the current profession, training and other methods for keeping themselves well informed, etc. The respondents were also queried on the type of establishment they operated from the infrastructure and equipment available to them in order to get an idea of the way in which business was being conducted by these retail intermediaries. In addition the survey addressed some issues such as 'square-off versus delivery business' and 'bad delivery' which are specific to the secondary market intermediaries

The key conclusions from responses to the various questions asked provide an understanding of the individual retail financial intermediaries, which forms the following profile

4.1 Demographic Profile

The respondents were asked 1 questions about their educational qualifications and age

The educational profile and the age distribution of brokers and sub-brokers is presented in the following charts

Chart 4.1 Education Profile

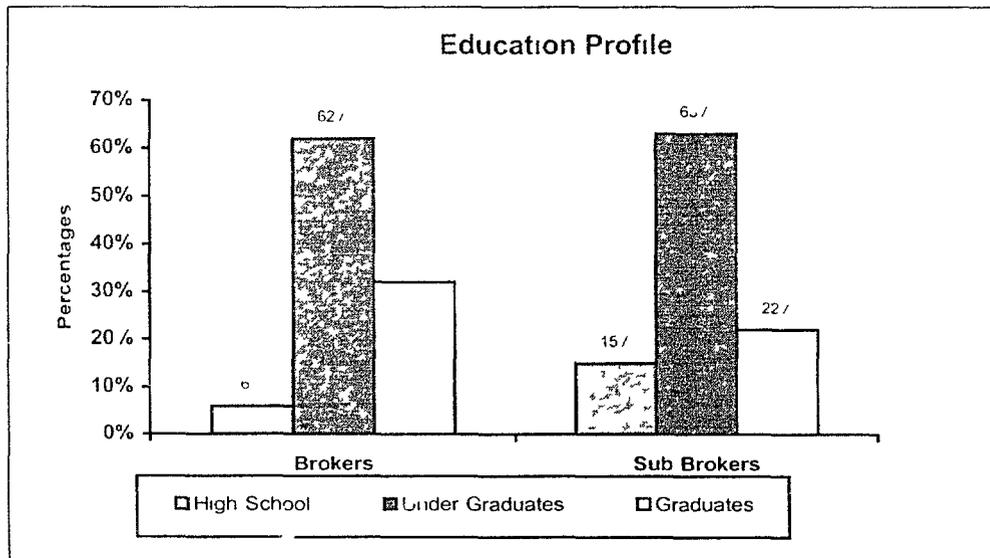
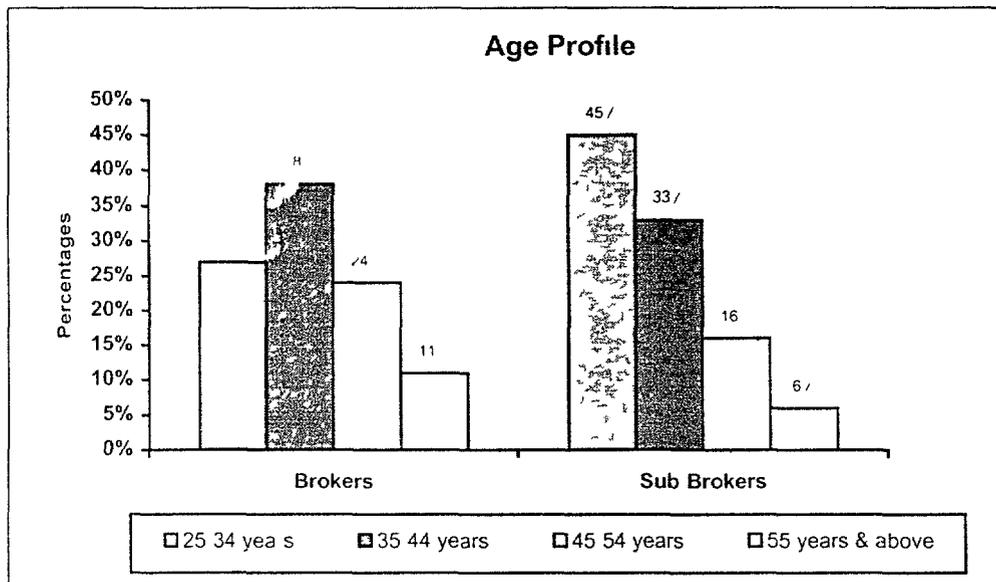


Chart 4 2 Age Profile



4 1 1 Broker

The majority of the brokers interviewed were well educated with 62% reporting to be graduates¹⁷ and 32% as postgraduates¹⁸ The balance 6% constituted those who reported to be undergraduates¹⁹ or academically less qualified This pattern did not vary too much across the different categories as can be seen from the following table

Table 4 1 Education Profile - Brokers

| Education | All India | Only PMB | Only SMB | PMB+SMB |
|---|-----------|----------|----------|---------|
| High-School | 6% | 10% | 6% | 4% |
| Under-Graduates | 62% | 67% | 63% | 58% |
| Graduates (incl Professionals like CA/ICWA/MBA) | 32% | 22% | 30% | 38% |

The average age of the group worked out to be 41 years for the brokers interviewed and as can be seen from the table below this did not vary much across the various RFI categories

¹⁷ Under Graduates are defined to be those who have earned a bachelor s degree at the university

¹⁸ Graduates are defined to be those who pursue education beyond the bachelors degree with a subject specialisation

¹⁹ High School are those who do not have a bachelor s degree but have completed twelve years of education

Table 4 2 Age Profile - Brokers

| Age (years) | All | Only PMB | Only SMB | PMB+SMB |
|-------------|-----|----------|----------|---------|
| 25-34 | 27% | 37% | 25% | 27% |
| 35-44 | 38% | 37% | 37% | 41% |
| 45-54 | 24% | 15% | 26% | 21% |
| >55 | 11% | 10% | 11% | 10% |
| Mean | 41 | 39 | 41 | 40 |

4 1 2 Sub-broker

Like brokers the sub-brokers interviewed also reported to be well educated 63% of the total respondents reported to be graduates and 22% were postgraduates or professionally qualified (CA ICWA MBA etc) Only 15% of the sample reported that they were undergraduates or academically less qualified Again as is apparent from the table below there were no significant variations across the different RFI categories

Table 4 3 Education Profile – Sub-broker

| Education | All | Only PMSB | Only SMSB | Only FDA | PMSB+S MSB+FDA |
|---|-----|-----------|-----------|----------|-------------------|
| Undergraduates or below | 15% | 11% | 10% | 20% | 10% |
| Graduates | 63% | 74% | 64% | 62% | 61% |
| Postgraduates (incl Professionals like CA/ICWA/MBA) | 22% | 15% | 25% | 18% | 29% |

The average age for the sub-brokers as a whole worked out to be 38 years and as can be seen from the following table this was almost identical for the three categories of the RFIs

Table 4 4 Age Profile – Sub-broker

| Age (years) | All | Only PMSB | Only SMSB | Only FDA | PMSB+SM SB+FDA |
|-------------|-----|-----------|-----------|----------|-------------------|
| 25-34 | 45% | 43% | 49% | 43% | 44% |
| 35-44 | 33% | 30% | 33% | 35% | 32% |
| 45-54 | 16% | 22% | 15% | 17% | 14% |
| >55 | 6% | 4% | 4% | 5% | 10% |
| Mean | 38 | 38 | 37 | 38 | 38 |

4 2 Years in Profession

All respondents were asked a question on the number of years spent by them in their current profession

The years of experience in the profession for the brokers and the sub-brokers is presented in the table below Notably about half of all RFIs interviewed had experience

ranging between 5 and 10 years

Table 4 5 Experience Profile – All RFIs

| Years in profession | < 5 | 5-10 | >10 | Mean |
|---------------------|------------|------------|------------|-----------|
| Brokers | | | | |
| All | 15% | 50% | 35% | 11 |
| Only PMB | 10% | 55% | 34% | 12 |
| Only SMB | 19% | 47% | 34% | 11 |
| PMB+SMB | 11% | 56% | 33% | 10 |
| Sub-brokers | | | | |
| All | 25% | 59% | 16% | 8 |
| Only PMSB | 22% | 57% | 20% | 7 |
| Only SMSB | 22% | 64% | 15% | 8 |
| Only FDA | 30% | 54% | 15% | 8 |
| PMSB+SMSB+FDA | 12% | 69% | 20% | 8 |

4 2 1 Broker

On an all India basis, the broker has spent an average of nearly 11 years in the broking profession. This average does not vary significantly across categories. Compared with sub-brokers (16%) more brokers (35%) had experience of more than 10 years. Five percent of those interviewed did not give an answer for this question.

4 2 2 Sub-broker

On an average, the sub-broker community had spent about 8 years in the profession. Also, there were no major differences across the different categories with over 70% of all sub-brokers in each category falling within the experience bracket of upto 10 years. Eleven percent of the total respondents did not answer this question.

4 3 **Choice of Career**

The respondents were asked to list the various reasons that influenced the choice of their career using an open ended question that permitted multiple responses.

4 3 1 Broker

The primary reasons quoted for entering the broking business together with the percentage respondents citing each of these reasons are shown in the table below for the brokers interviewed.

Table 4 6 Choice of Career - Broker

| Reasons for entering profession | All | Only PMB | Only SMB | PMB+S MB |
|-------------------------------------|-----|----------|----------|----------|
| Personal interest in capital market | 20% | 10% | 20% | 26% |
| Family business | 26% | 23% | 30% | 20% |
| More income and profits | 32% | 31% | 35% | 24% |
| Good investor cum analyst | 33% | 31% | 36% | 26% |
| Experience in stock market | 10% | 7% | 10% | 14% |

It is noted that more income and profits and good investor cum analyst were the two primary reasons that attracted both the PMBs and SMBs to this profession and in almost the same measure. However, the two categories differed somewhat on the other factors. Personal interest in capital market and family business were found to be more dominant in the case of those exclusively engaged in secondary market operations. Nine percent of the total interviewees did not respond to this question.

At the all India level, the other factors cited which were not very significant and therefore not presented in the table above include "market was good at that time" (5%), friend/wife was in the profession (4%).

4.3.2 Sub-broker

The major reasons quoted for entering the sub-broking business together with the percentage respondents citing each of these reasons are shown in the table below for the various categories of the sub-brokers interviewed.

Table 4 7 Choice of Career – Sub-broker

| Reasons for entering profession | All | Only PMSB | Only SMSB | Only FDA | PMSB +SMSB+ FDA |
|------------------------------------|-----|-----------|-----------|----------|-----------------|
| Family business | 10% | 11% | 11% | 7% | 10% |
| More income/profits | 30% | 30% | 33% | 25% | 30% |
| Personal interest | 15% | 22% | 14% | 12% | 25% |
| Good investor cum analyst | - | 30% | - | - | 31% |
| At first investor, then sub-broker | - | - | 34% | - | 22% |
| Good commission | - | - | - | 16% | 8% |
| No investment required | - | - | - | 10% | 10% |
| Due to unemployment | - | - | - | 11% | - |

From the above table, it is clear that more income/profits was the single most important reason for the sub-brokers to enter the business and this was uniformly so across the various RFI types. In addition, there were certain reasons quoted which were specific to a particular RFI category. For PMSBs, one of the motivating factors was identified as their being good investor cum analyst (30%). A sizeable proportion (34%) of the SMSBs were initially investors themselves and entered the sub-broking business later.

The FDAs identified some additional factors such as good commission (16%) received in the profession no investment required (10%) for undertaking the profession and due to unemployment (11%)

4.4 Likelihood of continuing in the current profession

All respondents were further asked about the likelihood of their continuing in the current profession

The following table provides an understanding of the RFIs' inclination to continue with their current career option

Table 4.8 Likelihood of continuing in current profession – All RFIs

| Inclination to continue in profession | Likely | Unlikely | Undecided |
|---------------------------------------|------------|-----------|------------|
| Brokers | | | |
| All | 77% | 7% | 16% |
| Only PMB | 83% | 7% | 10% |
| Only SMB | 76% | 7% | 17% |
| PMB+SMB | 80% | 5% | 15% |
| Sub-brokers | | | |
| All | 77% | 6% | 17% |
| Only PMSB | 80% | 5% | 15% |
| Only SMSB | 71% | 11% | 18% |
| Only FDA | 85% | 1% | 14% |
| PMSB+SMSB+FDA | 76% | 7% | 17% |

4.4.1 Broker

As can be observed a large majority (77%) of all brokers responded in the affirmative while less than one fifth (16%) remained undecided on this count with the balance (7%) reporting that they were unlikely to continue in this profession. The primary market brokers displayed slightly greater loyalty to the broking profession with 83% opting to continue in their current line of operation.

Those brokers who said that they were likely to continue in the current profession were asked to assign reasons for the same by using an open-ended question where multiple responses were possible.

The table below provides the percentage responses on the factors determining their decision to continue in the current business.

Table 4 9 Reasons for continuing in the same profession - Broker

| Reason | All | Only PMB | Only SMB | PMB+SMB |
|----------------------------|-----|----------|----------|---------|
| No of respondents | 288 | 33 | 176 | 79 |
| Personal Interest | 12% | 18% | 7% | 20% |
| Family Business | 10% | 3% | 13% | 6% |
| More money/profits | 21% | 14% | 24% | 20% |
| Knowledge and expertise | 12% | 10% | 15% | 10% |
| Market is being good to us | 14% | 18% | 13% | 13% |
| Satisfied with business | 7% | 7% | 7% | 7% |

As can be seen overall 'more money/profits' was the most dominant reason for continuing in the profession. However, the primary and the secondary market intermediaries differed slightly with the PMBs showing a preference for 'personal interest' and 'market is good to us' as compared to the SMBs who leaned more towards 'family business' and 'knowledge and expertise' in addition to 'more money/profits'. About 20% of the respondents did not assign any reasons for continuing in the current profession.

On an overall basis, for those who were undecided on continuing in the profession, the indecision stems primarily from the 'uncertainty prevailing in the state of the markets' (52%) and the perception that the business is not profitable enough (17%). The other reasons put forth were 'risk is more', 'investor is not coming to the market', 'depends upon work'. About 12% of the respondents did not respond to this query.

4.4.2 Sub-broker

It is observed that there is a striking similarity between the responses of the brokers and sub-brokers on the issue of continuing in the current profession. Approximately three-fourths (ranging between 71% to 85%) of all categories of sub-brokers indicated the likelihood of continuing in their current profession, whereas less than one-fifth of respondents across all categories remained undecided on this front.

4.5 Training and Professional Development

A number of questions were asked to ascertain the RFIs' perception of training needs and their actual participation in seminars and conferences etc. for professional development.

The following table provides the participation record and the broad perception regarding training as a tool of professional development and business enhancement for the RFIs.

54

Table 4 10 Training participation and perception – All RFIs

| Training – Participation & Perception | Undergone training | Training required to enhance business | Training required to enter business today |
|---------------------------------------|--------------------|---------------------------------------|---|
| Brokers | | | |
| All | 25% | 48% | 64% |
| Only PMB | 27% | 45% | 60% |
| Only SMB | 22% | 42% | 61% |
| PMB+SMB | 28% | 64% | 73% |
| Sub-brokers | | | |
| All | 22% | 53% | 64% |
| Only PMSB | 26% | 43% | 52% |
| Only SMSB | 18% | 51% | 70% |
| Only FDA | 25% | 53% | 60% |
| PMSB+SMSB+FDA | 22% | 53% | 63% |

4 5 1 Broker

Only one out of every four broker reported having attended some kind of formal training to help him enhance his business even while almost half of those interviewed admitted to the importance of training in enhancing their business Further nearly two third majority of the brokers felt that training was essential for entering the broking profession today

The following table shows the level of participation for brokers in conferences and seminars other than investor conferences

Table 4 11 Participation in conferences/ seminars - Broker

| Response | All | Only PMB | Only SMB | PMB+SMB |
|--|----------------------------|-------------|--------------|-------------|
| Respondents not attended any conferences/ seminars | 187 (50%) | 17 (43%) | 129 (55%) | 41 (41%) |
| Respondents who had attended some conferences/ seminars | 185 (50%) | 23 (57%) | 104 (45%) | 58 (59%) |
| Average number of conferences/ seminars attended by those who had attended some in the past one year | 3 77 | 4 65 | 3 46 | 4 00 |

For those brokers who had attended some conferences/ seminars in the past year, the overall annual average worked out to be 3 77 As can be seen, this average did not vary significantly across the various RFI categories

4 5 2 Sub-broker

About one out of every five sub-broker reported having attended some kind of formal training to help him enhance his business even though more than half of those interviewed vouched for the important role that training could assume in enhancing their business interests Further nearly two thirds of the RFIs felt that training was essential for entering the sub-broking profession today This pattern was largely uniform across the three intermediary categories of PMSB SMSB and FDA except that the PMSBs displayed slightly less enthusiasm for training even though they had a better record than the other categories of having attended such programs

The following table shows the level of participation for sub-brokers in conferences and seminars other than investor conferences

Table 4 12 Participation in conferences/ seminars – Sub-broker

| Response | All | Only PMSB | Only SMSB | Only FDA | PMSB+S MSB+FDA |
|--|--------------|-------------|--------------|--------------|----------------|
| Respondents not attended any conferences/ seminars | 436 (53%) | 25 (54%) | 140 (57%) | 142 (49%) | 40 (56%) |
| Respondents who had attended some conferences/ seminars | 390 (47%) | 21 (46%) | 107 (43%) | 150 (51%) | 31 (44%) |
| Average number of conferences/ seminars attended by those who had attended some in the past one year | 3 65 | 4 14 | 3 79 | 3 47 | 3 48 |

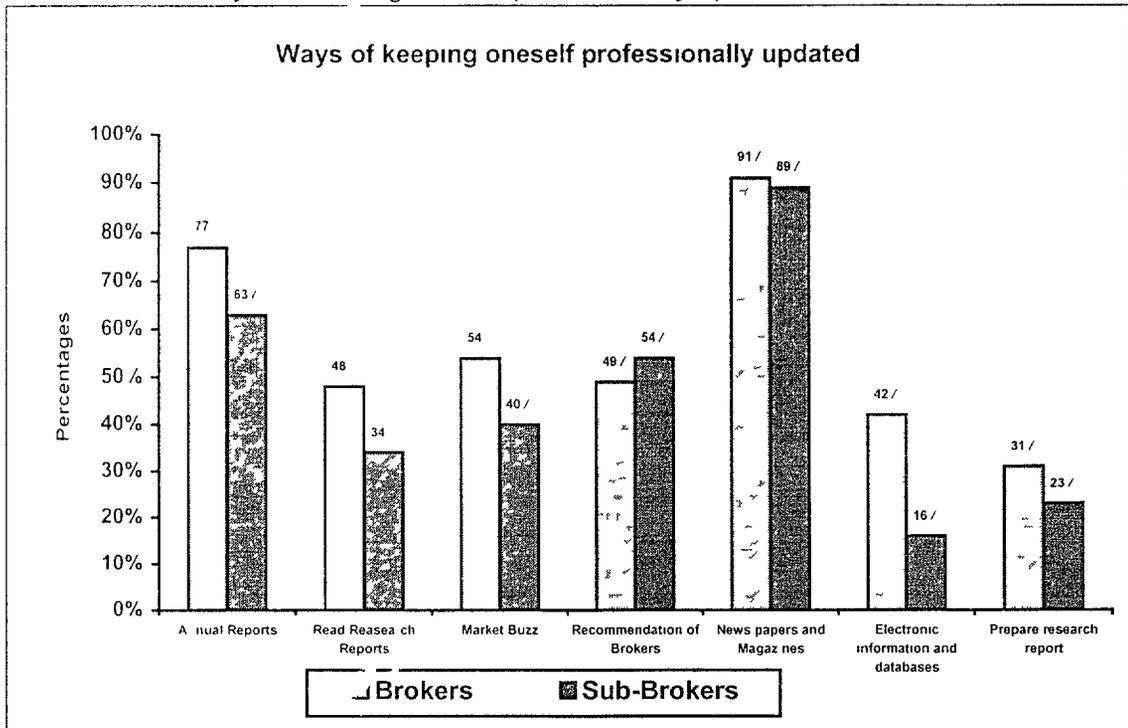
For those sub-brokers who attended some kind of conferences/ seminars in the past one year the average number was 3 65 and this did not vary too much across the different RFI categories

4 6 **Efforts employed to keep oneself updated**

All the respondents interviewed for the study were handed over a card on which were listed several methods for keeping oneself professionally updated The respondents were asked to choose the various options resorted to by them to keep in regular touch with product and market developments The respondents in general reported more than one method of keeping themselves updated

The following chart presents the findings of the survey at the all India level for brokers and sub-brokers as a whole

Chart 4 3 Ways of keeping oneself professionally updated



4 6 1 Broker

A large majority (91%) of the interviewees depended on the analysis and reports appearing in financial newspapers and magazines for keeping themselves professionally updated. The other key sources reported as providing company information and regular updates on market product and related development include "reading annual reports", "listening to market buzz" and "listening to other brokers' recommendations". It is to be noted that more than half of the respondents reported that they do not read research reports and an even smaller proportion of the brokers prepared their own research reports.

Further, the responses were almost uniformly prevalent across the various RFI categories as can be seen from the table below.

Table 4 13 Ways to keep oneself updated - Broker

| Response | All | Only PMB | Only SMB | PMB+SMB |
|--|-----|----------|----------|---------|
| Read annual reports | 77% | 77% | 74% | 82% |
| Read research reports | 48% | 50% | 42% | 62% |
| Listen to market buzz | 54% | 50% | 53% | 59% |
| Listen to other brokers' recommendations | 49% | 40% | 48% | 54% |
| Read newspapers and magazine analysis | 91% | 92% | 91% | 90% |
| Electronic information/databases | 42% | 35% | 39% | 51% |
| Prepare own research report | 31% | 37% | 28% | 35% |

4 6 2 Sub-broker

As in the case of brokers the large majority (89%) of the interviewees depended on the analysis and reports appearing in financial newspapers and magazines for keeping themselves updated on market developments. Again this trend was nearly uniform across the various RFI categories. However a greater percentage of the sub-brokers who identified themselves as being active across primary secondary as well as fixed deposits reported to be using the various methods for keeping themselves updated.

Table 4 14 Ways to keep oneself updated – Sub-broker

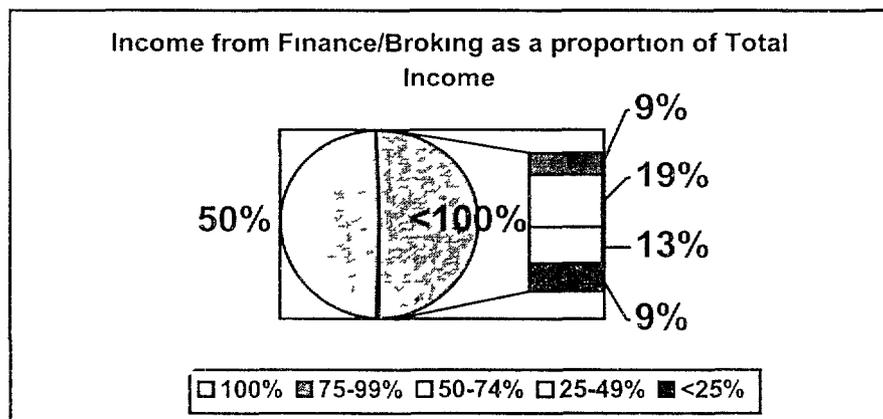
| Response | All | Only PMSB | Only SMSB | Only FDA | PMSB+ SMSB+ FDA |
|---|-----|-----------|-----------|----------|-----------------|
| Read annual reports | 63% | 61% | 65% | 59% | 72% |
| Read research reports | 34% | 33% | 38% | 33% | 44% |
| Listen to market buzz | 40% | 37% | 36% | 36% | 61% |
| Listen to other brokers recommendations | 54% | 56% | 56% | 48% | 58% |
| Read newspapers and magazine analysis | 89% | 83% | 87% | 93% | 84% |
| Electronic information/databases | 16% | 15% | 19% | 11% | 30% |
| Prepare own research report | 23% | 33% | 23% | 20% | 30% |

4 7 *Part-time/ Full-time Occupation*

All the sub-brokers interviewed were asked to specify the income contribution from their finance/broking business to their total income with the intent of determining the level of part-time players in the segment. For this the respondents were asked to choose one of the five specified bands for income contributed by finance/broking business.

The following chart depicts the percentage break-up of all the sub-brokers interviewed according to the income from finance/broking as a proportion of their total business income.

Chart 4 4 Income from finance/broking as % of total income



On an aggregate it is observed that one-half of those interviewed were full-time practitioners of the sub-broking profession with this being their only source of business. The balance 50% derived less than 100% of their total income from sub-broking. However, a significant proportion (28%) derived more than half of their total income from the sub-broking activities. Overall, only about a quarter (22%) of those interviewed earned less than 50% of their total income from sub-broking and could be classified as part-time sub-brokers. This pattern was followed by the individual categories of PMSBs, SMSBs and the FDAs with striking similarity as can be seen from the percentage responses for the RFI categories given in the table below.

Table 4 15 Proportion of income from finance/broking – Sub-broker

| Proportion to Total | All | Only PMSB | Only SMSB | Only FDA | PMSB+SMSB+FDA |
|---------------------|-----|-----------|-----------|----------|---------------|
| 100% | 50% | 54% | 53% | 49% | 44% |
| 75-99% | 9% | 8% | 9% | 8% | 14% |
| 50-74% | 19% | 13% | 20% | 19% | 25% |
| 25-49% | 13% | 15% | 13% | 11% | 13% |
| Less than 25% | 9% | 9% | 6% | 13% | 4% |

The sub-brokers who derived part of their total income from other sources were further queried on their additional sources of income by asking an open-ended question and in some cases there were multiple answers.

The response to this question by percentage respondents for the RFI categories is summarised in the table below. Eighteen percent of the respondents did not give any answer.

Table 4 16 Other sources of income – Sub-broker

| Sources | All | Only SMSB | Only FDA | PMSB+SMSB+FDA |
|----------------------|-----|-----------|----------|---------------|
| No. of respondents | 341 | 92 | 129 | 37 |
| Business | 24% | 35% | 16% | 27% |
| Pension | 6% | 4% | 7% | 2% |
| Service | 22% | 16% | 29% | 7% |
| Trading | 15% | 13% | 9% | 27% |
| Investment/ Interest | 4% | 5% | 2% | 5% |
| Shop-keeping | 6% | 6% | 8% | 2% |
| Agriculture | 7% | 5% | 10% | 13% |
| Agent | 6% | 7% | 6% | 5% |
| Travel & Tour | 15% | 11% | 20% | 16% |

Data for 'Only PMSB' category is not presented here as the base was very small (only 11 respondents)

Overall, business and service were reported as being the two most prevalent additional means of income followed by 'trading', 'travel and tour agency' as the second line occupation.

4 8 Establishment and Infrastructure

Respondents were asked a number of questions relating to their establishment and infrastructure including

- Type of commercial entity – Proprietary Partnership Pvt Ltd Company
- Employee strength and
- Equipment access

Commercial Entity and Office

The following table presents the responses on the type of commercial entity used by the RFIs

Table 4 17 Type of commercial entity operating from – All RFIs

| Commercial Entity | Proprietary Concern | Partnership Firm | Private Limited Co |
|--------------------|---------------------|------------------|--------------------|
| Brokers | | | |
| All | 65% | 8% | 27% |
| Only PMB | 62% | 7% | 32% |
| Only SMB | 65% | 7% | 27% |
| PMB+SMB | 67% | 9% | 24% |
| Sub-brokers | | | |
| All | 86% | 6% | 8% |
| Only PMSB | 83% | 4% | 13% |
| Only SMSB | 81% | 9% | 10% |
| Only FDA | 91% | 3% | 6% |
| PMSB+SMSB+FDA | 79% | 10% | 11% |

A large proportion of all the RFIs interviewed reported to be operating as a Proprietary Concern. While nearly two thirds (65%) of all brokers interviewed operated from a Proprietary Concern, this proportion was even higher at 86% for the sub-broker respondents. The level of corporatisation reported by the RFIs is quite restricted, with only a little over one-quarter (27%) of the brokers responding to operate from a Private Limited Company. This was minimal for the sub-brokers with only 8% of the respondents reporting to operate as a Private Limited Company. No significant differences have been observed across the various broker and sub-broker categories. The FDAs were the least corporatised, with around 90% of those met operating as Proprietary Concerns.

According to SEBI Annual Report of the total stock brokers registered with SEBI as on March 31 1997, almost 2% were corporate members. The level of corporatisation varied significantly across the stock exchanges, from a high of 86% for those who were members of the NSE to a low of 0% for the Gauhati Stock exchange, which did not have a single corporate member. However, the trend for corporatisation has been reported to be increasing, with the percentage of total corporate members rising from 23% in 1996 to 27% in 1997.

The sub-brokers were further queried on the place from where they carried on their operations. Responses for this question are tabulated below.

Table 4 18 Place of operation – Sub-brokers

| Place of operation | All | Only PMSB | Only SMSB | Only FDA | PMSB+SM SB+FDA |
|--------------------|-----|-----------|-----------|----------|----------------|
| Own office | 49% | 63% | 51% | 40% | 65% |
| Broker's office | 18% | 13% | 32% | 7% | 13% |
| Home | 33% | 24% | 17% | 53% | 22% |

It is interesting to note that only about half of the sub-brokers interviewed operated from an office which was their own. Of the balance, a sizeable proportion (33%) reported to be operating out of their homes and the remaining 18% used their broker's office for carrying out their sub-broking activities.

More secondary market sub-brokers (32%) used their broker's office than any other category as their place of operation. Similarly, a sizeable 53% of the total FDAs interviewed operated out of their homes, a proportion far larger than for any other category of sub-broker.

4 9 Equipment / Infrastructure

The following table presents the equipment available to the intermediaries.

Table 4 19 Equipment available to RFIs

| Equipment | Brokers | Sub-Brokers |
|-------------------|---------|-------------|
| Telephone | 98% | 99% |
| Fax | 70% | 30% |
| Computer | 86% | 39% |
| BSE/NSE Terminal | 44% | 11% |
| Internet / e-mail | 19% | 7% |

It is observed that the brokers as a whole responded to being reasonably well equipped with telephones, fax and computers. However, only 44% of those interviewed reported access to BSE/NSE terminals. For the sub-brokers as a whole, telephones emerged as the key equipment for conducting business. Computers are yet to make deep penetration among the sub-brokers with only 39% of those interviewed responding to their having access to computers. Five percent of the brokers and 19% of the sub-brokers, respectively, did not respond to the question on office equipment available to them.

The survey also addressed some issues specific to the secondary market intermediaries business profile.

Secondary Market

4 10 Square off/ Delivery based

All secondary market intermediaries (SMBs and SMSBs) were asked to give the percentage split between their Square off and Delivery Based retail business

The responses were as follows

Table 4 20 Percentage split between square-off and delivery based business

| Business Type | Square off | | Delivery Based | |
|---------------|------------|----------|----------------|----------|
| | Mean % | Median % | Mean % | Median % |
| SMBs | 57 | 66 | 43 | 36 |
| SMSBs | 47 | 48 | 53 | 48 |

As can be observed from the above table a significant percentage of the business conducted by both SMBs and SMSBs is square-off based and not delivery based

4 11 Impact of Bad deliveries

All secondary market intermediaries were handed over a card on which were listed six phases ranging from 'Most affected' to "Least affected" They were read out a series of statements, which may have been instrumental in affecting their Delivery Based business As each statement was read out, they were asked to select a phrase which was most appropriate for that statement A score of 6 00 would mean that the factor has most affected the Delivery Based Business and a score of 0 00 would mean that the factor has least affected the Delivery Based Business

The following table shows the average rating of the factors, which impacted the delivery based business

Table 4 21 Factors impacting delivery based business

| Factors | SMBs | SMSBs |
|--|------|-------|
| Fear of bad delivery due to Process | 3 32 | 3 46 |
| Fear of bad delivery due to false / forged-stolen shares | 3 19 | 3 28 |
| Poor service from Registrars / Transfer Agents | 3 17 | 3 15 |
| Loss of Investor confidence in Financial Intermediaries | 2 84 | 3 09 |
| Loss of faith in Corporates | 2 96 | 2 93 |

The survey shows that fear of bad delivery due to process and 'fear of bad delivery due to false/forged-stolen shares along with 'poor service from Registrars and Transfer Agents have affected the delivery based business to some extent

All secondary market intermediaries were then specifically asked whether they had reduced their delivery-based business due to a fear of bad deliveries

Overall 58% of SMBs and 45% of SMSBs stated that they had reduced their delivery based business. Amongst all the secondary market intermediaries (including SMBs and SMSBs) 384 out of a total of 759 i.e. around 50% stated that they had reduced their delivery based business due to a fear of bad deliveries

5 Relationship with other RFIs

5.1 Association with other RFIs

5.1.1 Brokers

The brokers were asked

- whether they had associations with sub-brokers, and
- number of sub-brokers they are associated with

Not many brokers reported having RFIs working with them (35% PMBs had PMSBs and 40% SMBs had SMSBs) However the average number of PMSBs associated with a PMB was 152 as compared to 17 SMSBs for each SMB

Table 5.1 Brokers associated with sub-brokers

| | PMB (Base 139) | SMB (Base 332) |
|---|-------------------------------|-------------------------------|
| <i>Associated with</i> | PMSB | SMSB |
| <i>Percentage associated</i> | 35% | 40% |
| <i>Average Number of Sub-brokers associated</i> | 152 | 17 |

The following are the regional observations

- The south zone had a higher average figure of 248 PMSBs associated with each PMB
- The average number of PMSBs and SMSBs associated with PMBs and SMBs was 9 and 3 respectively in the eastern zone
- Surprisingly with the decrease in size of town, PMBs had an increasing number of PMSBs working for them. Compared with it, there was a declining trend in the percentage of SMBs having SMSBs associated with them.

Further, all the brokers were asked

- whether they had any clients who brought in additional business, and
- average number of such clients

22% of the SMBs responded that they had such clients and the average number of such clients was 14. Half of these SMBs stated that they had up to 10 such clients.

- The proportion of SMBs having clients bringing in business regularly varied widely across zones, from 40% in the North zone to 7% in the South zone.
- SMBs in the West zone had the highest average number of such clients at 24.

5.1.2 Sub-brokers

All respondents were questioned on

- whether they are associated with other brokers / companies / NBFCs and
- number of brokers / companies / NBFCs they are associated with

81% of the PMSBs reported being associated with PMBs and about 17% were associated with Merchant Bankers (MBs) This may be explained by MBs acting as procurement agents in primary markets in the recent years However in case of fixed deposits 44% of FDAs interviewed responded that they were directly associated with companies / NBFCs , which will make them FD brokers

SMSBs need to associate with SMBs for operating in secondary markets On the question relating to number of SMBs they are associated with the survey findings indicated that 53% of SMSBs interviewed deal with more than one SMB and the average number of SMBs associated with being 3.6 This is particularly high for the North zone and Mega Metros where the averages are 5.6 and 5.2 respectively

Table 5.2 Interlinkages among RFIs

| | PMSB (Base 239) | | FDA (Base 472) | | SMSB (Base 427) |
|-----------------------|--------------------|-----|-------------------|-----|------------------------|
| | PMB | MB | Co /NBF C | FDB | SMB* *more than one |
| Associated with | | | | | |
| Percentage associated | 81% | 17% | 44% | 52% | 53% |
| Average Number # | 4.1 | 1.8 | 5.5 | 8.7 | 3.6 |
| Median | 2 | 1 | 3 | 2 | 3 |

Indicates the average number of main intermediary a sub broker is associated with

Further observations from the survey are

- 55% of the PMSBs associate with only one MB However, in the western zone, 56% of PMSBs interviewed associated with two MBs
- 58% of the PMSBs associated with PMBs also dealt with either one or two PMBs
- 50% of the FDAs associated with FDBs dealt with one or two FD brokers
- Surprisingly, 62% of registered SMSBs deal with more than one SMB This incidence is particularly high in the eastern zone with 91% of registered SMSBs dealing with more than one SMB In the western zone only 48% dealt with more than one SMB Further as the class of town came down from Mega Metro to Class I there was a decline in the proportion of registered SMSBs dealing with more than one SMB

Further all the SMSBs who dealt with more than one SMB were further asked for the names of the stock exchanges of which his SMBs were members

National Stock Exchange (NSE) figured at the top (74%) followed by Mumbai Stock Exchange (59%) and Calcutta Stock Exchange (20%) Surprisingly 15% of the respondents said that they transacted business through members of Vadodra Stock Exchange This was followed by Madras Stock Exchange (9%)

Further it appears that the reach of NSE and BSE is limited in the eastern zone, with only 58% and 31% of the SMSBs dealing through NSE and BSE members respectively

An increasing trend was observed with the percentage of respondents who said they transact business through the NSE or BSE as the class of town declines

5.2 Verifications and Evaluation

The respondents were asked

- Whether brokers / companies / NBFCs asked for any verification before associating with new sub-brokers and
- Factors used for verification
 The respondents were given five options and while the brokers were asked to rank the various factors used for verification, the sub-brokers and FDA were asked for a simple rating

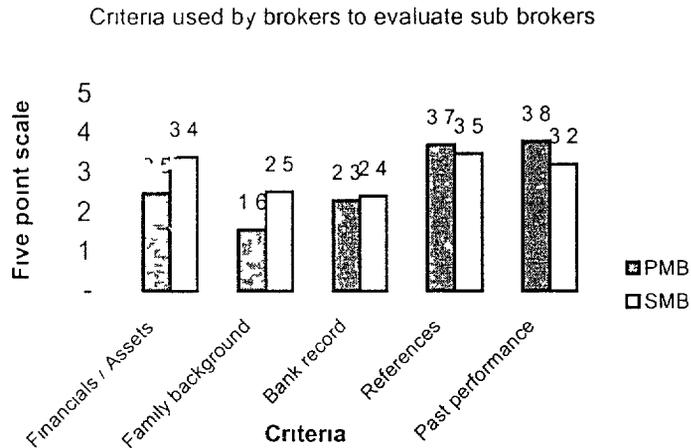
5.2.1 Brokers

A vast majority of brokers (71% of PMBs and 67% of SMBs) reported that they sought verifications from their sub-brokers. For PMBs, interestingly only half the PMSBs said they provided verifications to the PMBs they associate with

Table 5.3 Verification of sub-brokers by brokers

| | PMB (Base 139) | SMB (Base 332) |
|---------------------------|-------------------|-------------------|
| Associated with | PMSB (49) | SMSB (132) |
| Verification required | 71% | 67% |
| Verification not required | 29% | 33% |

While the SMBs who have SMSBs consider references, financials / assets and past performance respectively to be the important criteria for evaluation of SMSBs the PMBs consider past performance references and financials / assets of the PMSB to be important. The charts below provides ranking of various criteria used for evaluation of PMBs and SMBs



Understandably PMBs attached more importance to past performance as compared with SMBs

5.2.2 Sub-brokers

The survey findings indicated that approximately half the RFIs furnished verifications before associating with concerned senior level RFI. While this is generally true for PMSBs and FDAs, in the case of SMSBs, a greater percentage (63%) had to furnish verifications.

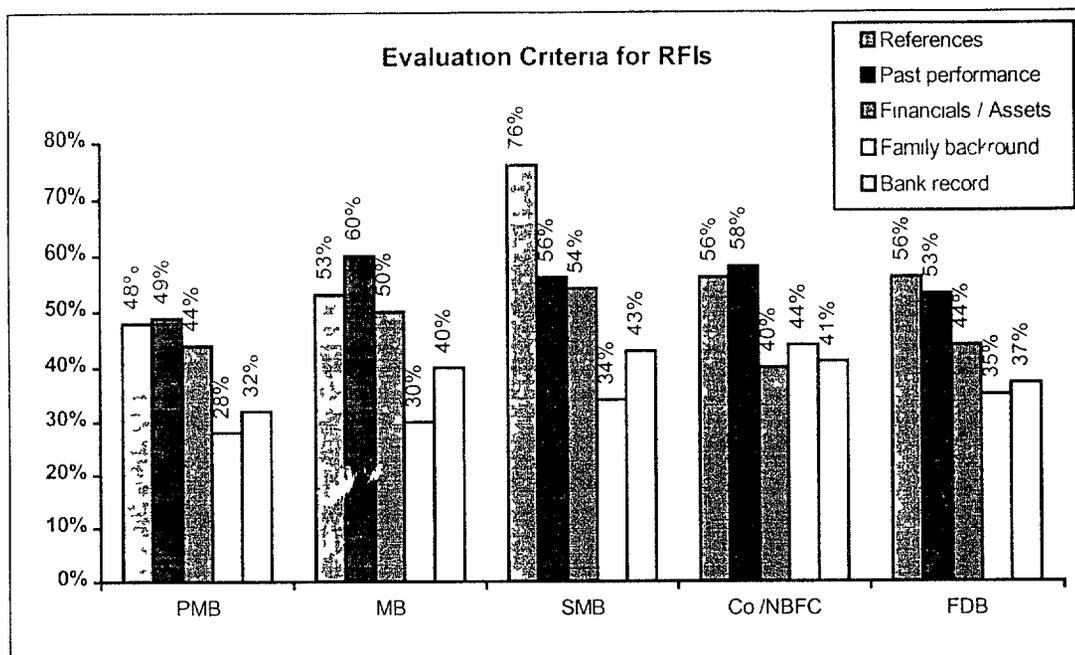
Table 5.4 Sub-brokers providing verification to brokers

| | PMSBs | | SMSBs | FDAs | |
|---------------------------|--------------|------------|--------------|--------------------|--------------|
| | PMB (194) | MB (40) | SMB (427) | Co /NBF C (208) | FDB (246) |
| Verification required | 54% | 53% | 63% | 63% | 48% |
| Verification not required | 46% | 47% | 37% | 37% | 52% |

Examining regional trends the following variations were noticed

- A higher than average proportion of PMSBs (74%) were required to furnish verifications to PMBs in Mega Metros
- The proportion of FDAs required to furnish verification to their FDBs was highest in the eastern zone (61%) and lowest in the western zone (33%)
- Similarly the proportion of FDAs required to furnish verification to companies/NBFCs is highest in the South and East zones (78% and 76% respectively) and lowest in the West zone (45%)

The factor universally applicable to PMSBs SMSBs and FDAs, was the need to provide references though its importance might vary marginally. Past performance was also a significant factor considered in their evaluations.



The following are the observations that emerged from the survey

- As can be seen from the graph given above, sub-brokers believed that references (48% 53%) past performance (49% 60%) and financials / assets (44%, 50%) were the most important factors verified by PMBs as well as by MBs for evaluation of PMSBs respectively
- In the Mega Metros references were the most important factor at 72% followed by past performance and financials/ assets at 54%

5 3 Documentation

5 3 1 Brokers

The respondents were asked to explain

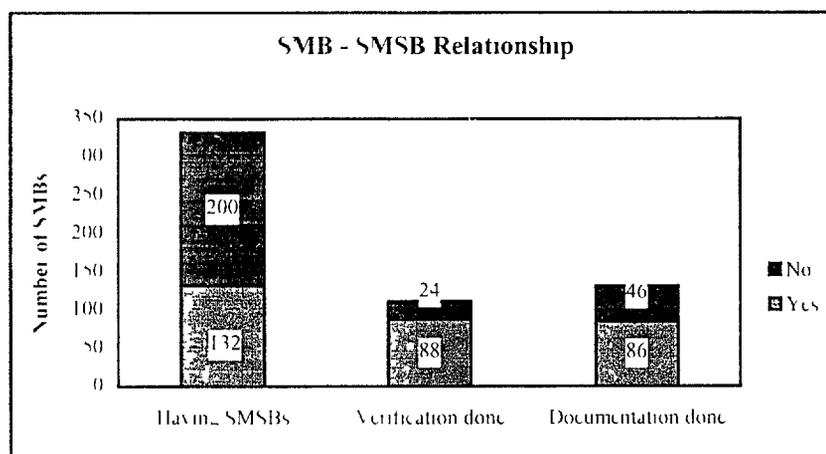
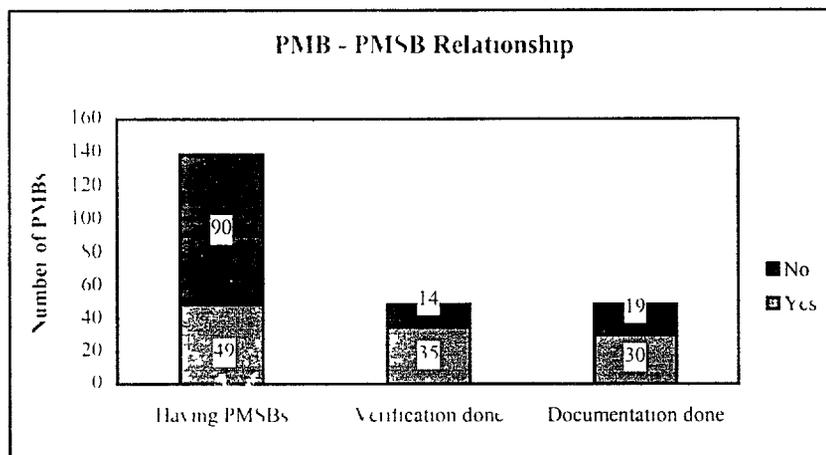
- whether they had formal documentation with sub-brokers and
- whether SMBs used the standard agreement provided by stock exchange

About two third of brokers reported having formal documentation with their sub-brokers (61% for PMBs who had PMSBs working for them and 65% for SMBs who had SMSBs working for them) The western zone seemed to attach relatively less significance to documentation with only 54% of the SMBs having documentation with their SMSBs, while in the eastern zone 75% of such SMBs had formal documentation

56% of the SMBs who have SMSBs and had formal documentation said they used the standard format provided by their stock exchange while a large 84% of those who had registered and unregistered SMSBs said they had the same agreement with all their SMSBs irrespective of their registration status

Table 5 5 Brokers who require documentation

| | PMB (Base 139) | SMB (Base 332) |
|-----------------------------------|-------------------|-------------------|
| <i>Associated with</i> | PMSB (49) | SMSB (132) |
| <i>Documentation required</i> | 61% | 65% |
| <i>Documentation not required</i> | 39% | 35% |



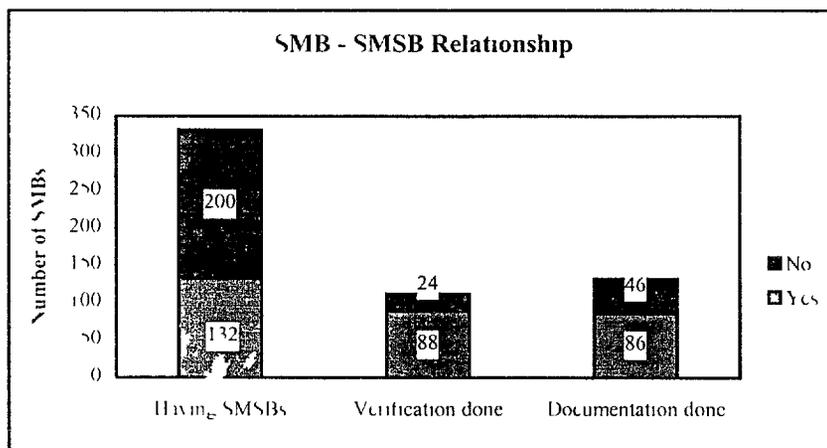
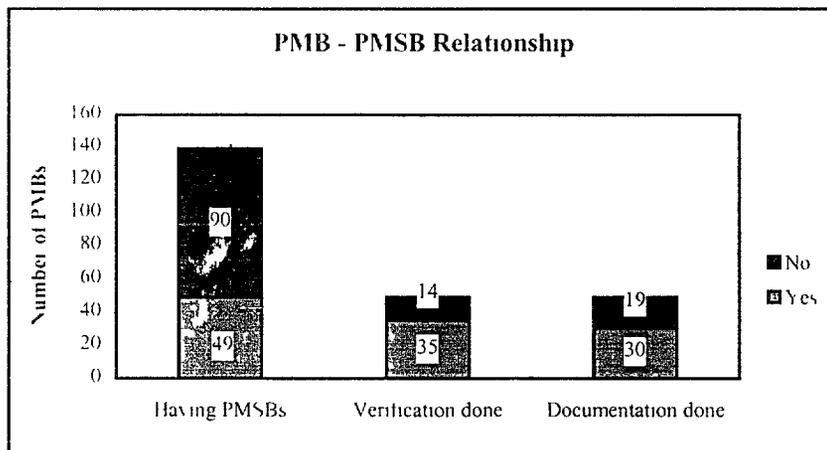
5 3 2 Sub-brokers

The respondents were asked if there was any formal documentation with brokers and Company/NBFC

Approximately half the sub-brokers reported having formal documentation with their brokers. This is evident from the table presented below

Table 5 5 Brokers who require documentation

| | PMB (Base 139) | SMB (Base 332) |
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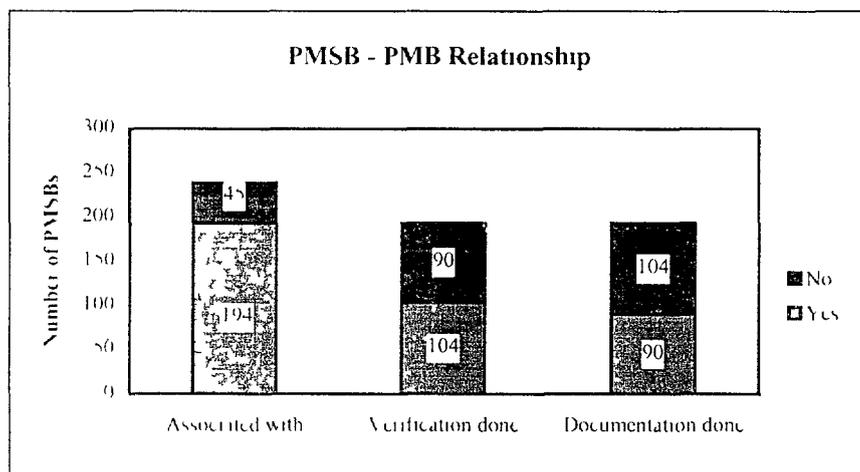
Table 5 6 Sub-brokers on documentation with brokers

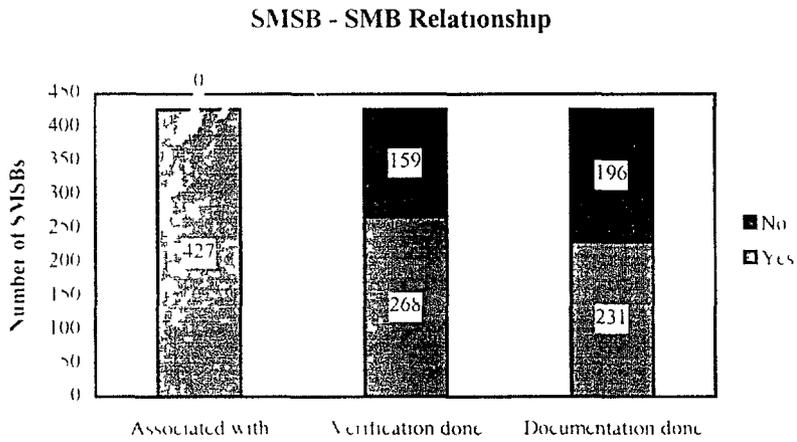
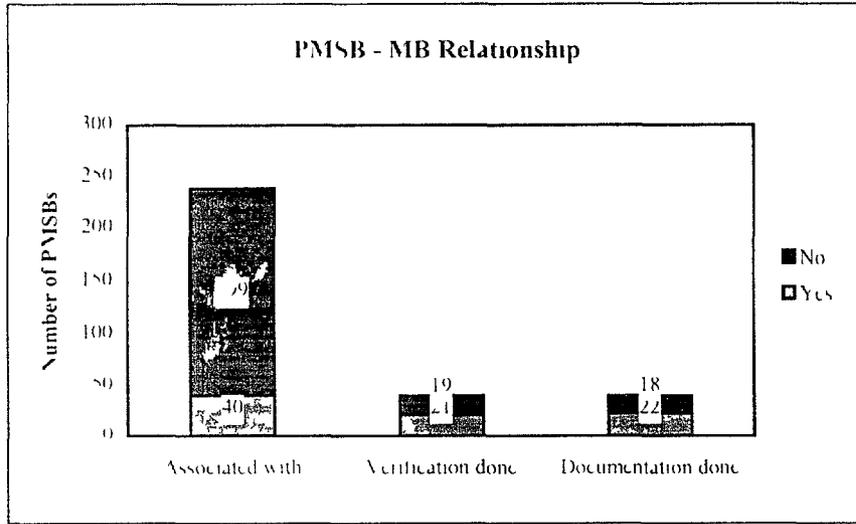
| | PMSB (Base 239) | | SMSB (Base 427) | FDA (Base 472) | |
|-----------------------------------|--------------------|------------|--------------------|--------------------|--------------|
| | PMB (194) | MB (40) | SMB (427) | Co /NBF C (208) | FDB (246) |
| <i>Associated with</i> | | | | | |
| <i>Documentation required</i> | 46% | 55% | 54% | 60% | 42% |
| <i>Documentation not required</i> | 54% | 45% | 46% | 40% | 58% |

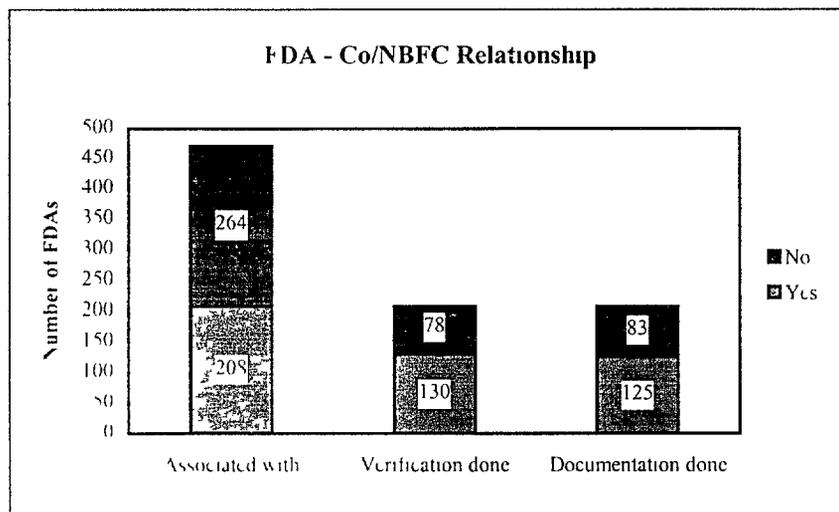
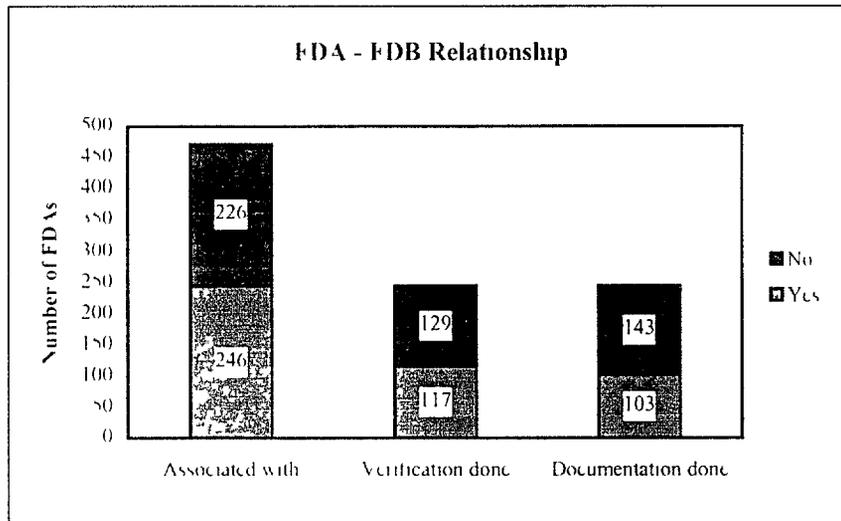
The following regional variations appeared

- More SMSBs in the South zone (70%) and fewer in the North zone (45%) had formal documentation with their SMBs (against the All India average of 54%)
- Formal documentation between FDAs and companies / NBFCs was particularly high in the eastern zone at 81% and lower in the western zone at 44% as compared to the All India average of 60%
- There was a declining trend in the level of documentation for FDAs with company / NBFCs as the class of town reduces from metros to Class II

The following graphs summarise the extent of verification and documentation that exists in the capital markets The first bar shows the proportion of the particular intermediary associated with the level above The second bar depicts the proportion of those associated that have to furnish verification and the third reveals the same for documentation







5 4 Security deposit and related issues

5 4 1 Brokers

SMBs who had SMSBs and all SMSBs were asked

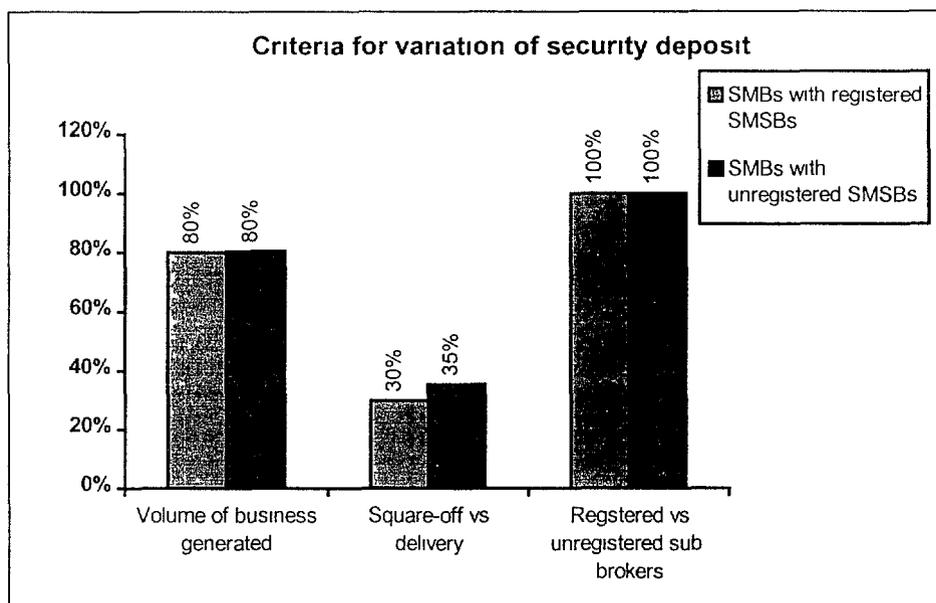
- about the requirement of a security deposit and
- the factors on which the amount of security deposit required depended
 The response was based on the three factors prompted by us These were
 - registration status of the SMSB
 - volume of business generated and
 - the proportion of square-off vs delivery based business

Subsequently the SMSBs were also asked if their security deposit had ever been

confiscated and if so had it been recovered

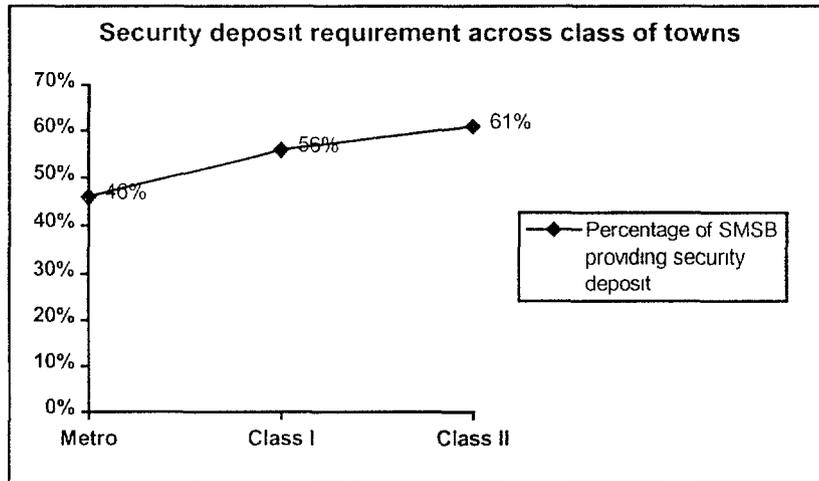
There was a unanimous response to the requirement of a security deposit from the registered SMSB. All 50 SMBs having registered SMSBs said they require the deposit. However, only 40% of the SMBs required a deposit from their unregistered SMSBs.

In keeping with the above, all SMBs stated that the amount of security deposit depended on the registration status of the SMSB. The importance of the other two factors is shown in the graph below.

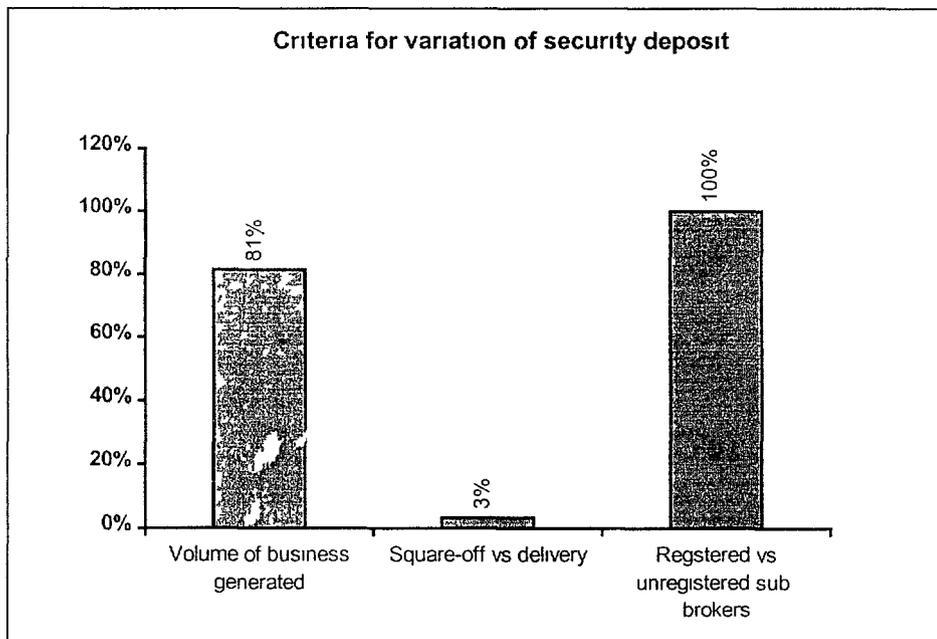


5.4.2 Sub-brokers

Approximately half (49%) of SMSBs provided security deposit to their SMBs. This requirement was higher in the southern zone (59%) and lower in the eastern zone (32%). As seen in the graph given below, there was a trend of increasing requirement as one moved from a metro to Class I to Class II towns.



The survey revealed that the registration status of the SMSBs was a universally applicable criterion for deciding the amount of security deposit to be provided to the SMBs. In addition, volume of business done by sub-brokers also affected the amount of security deposit. Surprisingly, only 3% of the respondents stated that the amount of security deposit depended upon the percentage of square-off vs delivery based transactions. The graph below provides the survey findings.



13 SMSBs responded that their security deposit had been confiscated and 10 of these had not recovered their deposits.

5.5 Registration with SEBI

5.5.1 Brokers

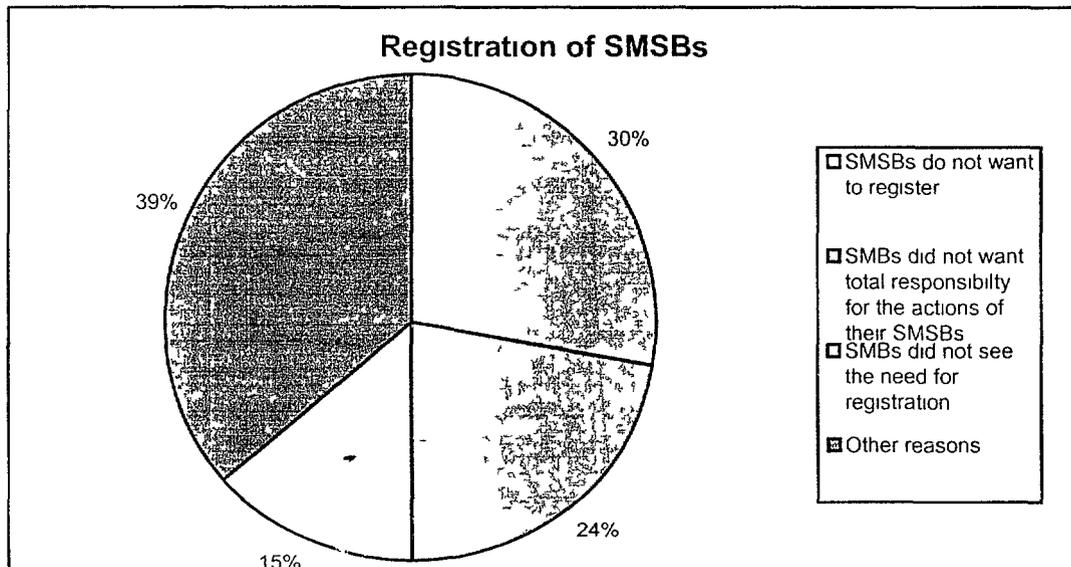
The SMBs who had SMSBs working for them were asked

- whether their sub-brokers were registered with SEBI and
- number of such sub-brokers

Of the 132 SMBs who had SMSBs working for them, only 50 (i.e. 38%) had SEBI registered sub-brokers. Only 10% of the SMBs had both registered and unregistered SMSBs while a large 62% had only unregistered sub-brokers. On an average, each SMB had 7 registered SMSBs.

The SMBs who had unregistered sub-brokers were asked for the reasons for their SMSBs not being registered with SEBI. The respondents were given the following four options and were asked to list the reasons they preferred. The responses were as follows:

- SMSBs did not want to get registered
- SMBs did not want to take responsibility for all their actions
- SMBs did not see the need for registration
- other reasons like it is SEBI's fault they do not expect any business from their sub-brokers; sub-brokers would not pass eligibility conditions

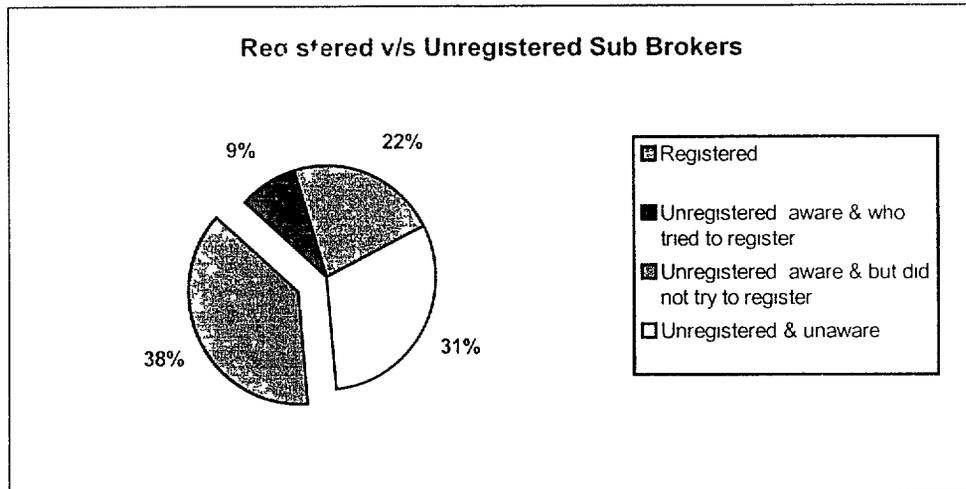


Note: There have been multiple responses for the reasons for non-registration of SMSBs.

5.5.2 Sub-brokers

SMSBs were asked

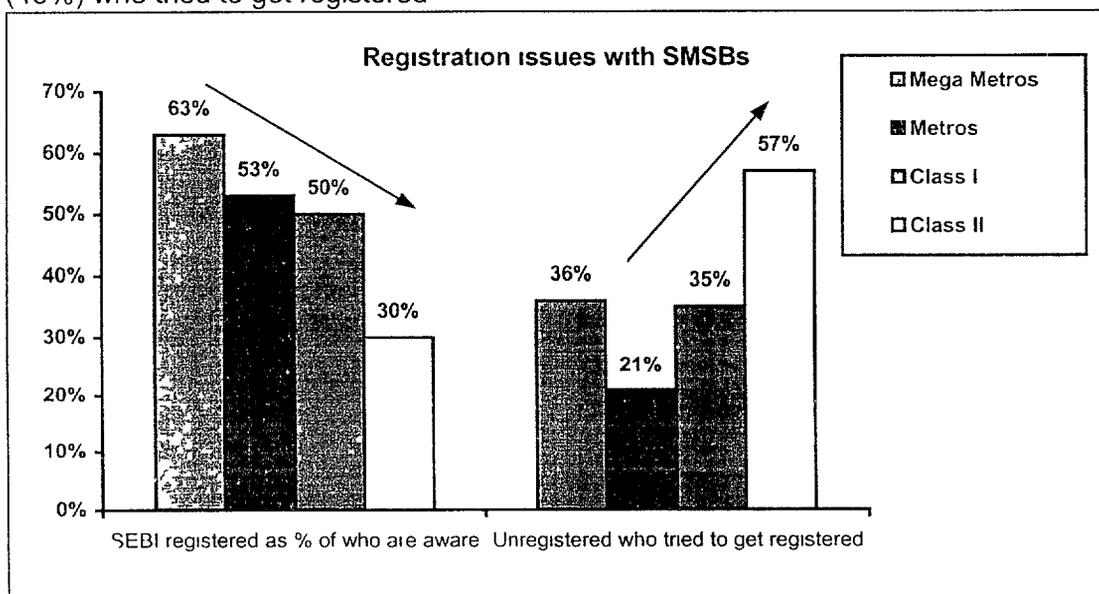
- Whether they were aware of any requirement for them to be registered with SEBI
- In case they were aware whether they had a registration number



69% of the SMSBs were aware of the registration requirement with SEBI Awareness levels were especially high in the West (78%) and in the Class I towns (88%) However in Class II towns, only 56% of respondents were aware of this requirement

Of those who were aware of the requirement 55% had registration with SEBI In the southern zone, this percentage was higher at 68%

Overall 30% of those that were aware of registration but did not have registration numbers had tried to get registered The North zone had a higher percentage of SMSBs (46%) who tried to get registered



As observed from the graph above the percentage of SMSBs registered with SEBI declines as the class of town reduces. However, the percentage of SMSBs who tried to register increases.

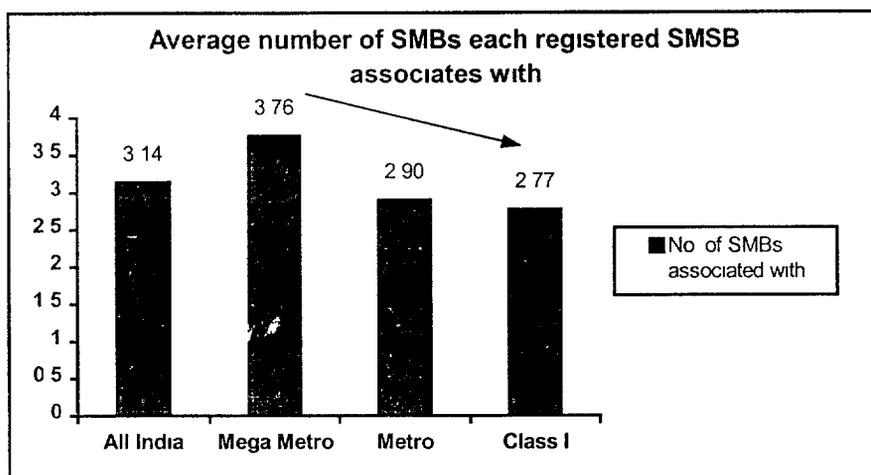
Those SMSBs who either had registration numbers and those that did not have the numbers but had tried to get registered with SEBI were asked if they faced any problems while doing so and what these problems were.

Only 21% of the SMSBs who were registered or had tried to get registered, reported having faced problems while doing so. Some of the problems faced by these respondents were as follows:

- SEBI asks for too many details
- there is too much delay in processing applications
- we have applied but not heard from SEBI, there are many restrictions
- there are many formalities like bank guarantees

While the proportion of registered SMSBs associated with more than one SMB is greater than that for the entire sample, the number of SMBs associated with is lower in case of registered SMSBs (3.14) as compared to that of all SMSBs (3.76).

Also, as the class of city declines, there is a steady decline in the average number of SMBs associated with.



The registered SMSBs who dealt with more than one SMB were asked if they enter into the same agreement with their SMBs irrespective of their registration status.

80% of the registered SMSBs who dealt with more than one SMB said that they enter into the same agreement with their SMBs irrespective of their registration status. 3 out of the base of 20 respondents who are registered and dealt with more than one SMB stated that they had an agreement with only one of their SMBs.

The balance 20% who entered into different agreements stated the following differences:

- different stock exchanges have different formats of agreement

- some brokers take deposits and some don't
- margin requirements are different

5.6 Information about clients of SMSBs

The brokers were asked if they needed all, some or no information about the clients of their sub-brokers

5.6.1 Brokers

There is a marked differentiation in the requirement of information by SMBs from registered and unregistered SMSBs about their clients. 62% of the SMBs said that they do not require any information about the clients of their registered sub-brokers. The table below gives the details.

Table 5.7 Information on sub-brokers' clients

| | Registered | Unregistered |
|--|-------------------|---------------------|
| Base | 50 | 96 |
| <i>Require information about all the clients</i> | 23% | 34% |
| Require information about some of the clients | 15% | 42% |
| Do not require any information about the clients | 62% | 21% |

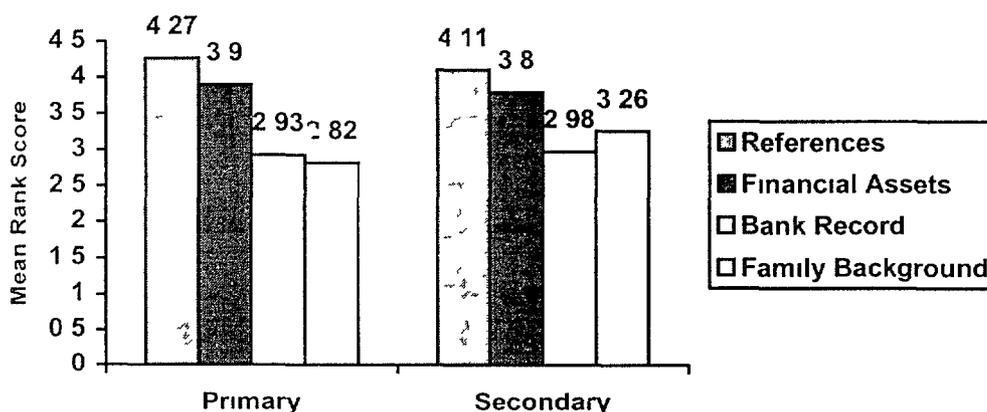
Please note that 14 SMBs had both registered and unregistered sub-brokers

Table 6 1 Brokers response on verification - Regions

| | All India | North | South | East | West | Mega Metro | Metro | Class 1 |
|---------------------------------|-----------|-------|-------|------|------|------------|-------|---------|
| PRIMARY MARKET CLIENTS | | | | | | | | |
| No of respondents | 139 | 34 | 41 | 30 | 34 | 44 | 77 | 18 |
| Verify | 39% | 38% | 37% | 53% | 29% | 46% | 35% | 39% |
| SECONDARY MARKET CLIENTS | | | | | | | | |
| No of respondents | 332 | 90 | 86 | 67 | 89 | 139 | 157 | 36 |
| Verify | 83% | 89% | 86% | 72% | 83% | 86% | 89% | 89% |

The higher incidence of secondary client-verification as compared to primary client-verification before taking on a new client appears to be linked to high payment/delivery risks attached to the secondary market transactions

The survey findings also rank the factors verified by the brokers before accepting new business. For secondary market clients the mean rank has been calculated out of a maximum possible score of 7.00 and for primary market transactions the maximum possible score is 6.00. Interestingly, for both secondary and primary market transactions, references and financial assets of the new client were the two most significant factors verified before taking on his business. This preference for references and financial assets was more or less similar across different regions and city types. The graph below gives the ratings obtained on various factors for evaluating a client in primary and secondary market respectively.



6.1.2 Sub-brokers

The survey findings indicate that on an overall basis, few sub-brokers (both primary and secondary and FD agents) verify before they take on new clients. It was observed that no sub-broker sought any verification before accepting a new primary market client. It was found that 90% of the sub-brokers did no verification before taking new FD clients.

6 Relationship with the retail investor

The retail investors' access to the financial markets is mainly through the retail financial intermediaries (RFIs). As a part of this survey of the RFIs, Price Waterhouse decided to focus on the investor- RFIs (brokers and sub-brokers) relationship and concentrated on the following aspects of this relationship:

- Selection-criteria for acceptance of investors' business
- Promotional methods used by the RFIs to attract new clients
- Level of interaction with existing clients
- Services rendered by the RFIs to their clients
- Influence exercised by the RFIs on their clients' investment decisions

In addition, these RFIs were asked whether they provide any receipts to their clients for their transactions executed on their behalf.

In the following sections, for every aspect mentioned above, PW report below the survey findings for RFIs as a whole and for different RFI categories, i.e. brokers and sub-brokers, primary and secondary market intermediaries, etc. PW have also made comments on differences in practices followed across different regions and city types in India. Please note that no broker was interviewed in Class II town.

6.1 Selection-criteria for acceptance of investors' business

The respondents were queried on:

- Whether any verification is done before accepting a new client, and
- Factors considered significant for new client verification – under this question, the brokers were asked separate questions on primary market clients, secondary market clients and FD clients (wherever applicable). The respondents were asked to rank the given options.

6.1.1 Brokers

The verification-incidence was linked to the type of new client. Less than half of all the brokers interviewed (39% on all India level) verify the primary client's background before taking a new client's business. In comparison, most of the brokers (83% on all India level) verify the secondary client's background before they take a new business. In the secondary market, this practice appears to be a little relaxed in the eastern zone (only about 72% of the respondents indicated that they verify the secondary client's background before dealing with him). The table below provides brokers' response across various geographic regions and city types.

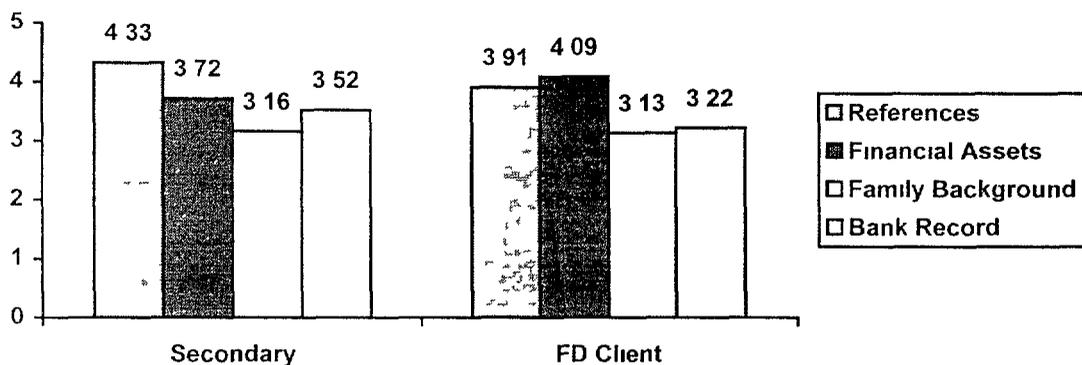
Interestingly in case of a new secondary market client also, only 15% of sub-brokers interviewed sought verification. However those FD agents who also operated in the secondary market appeared to be more cautious (37% of such FD agents interviewed responded that they verify) while taking up new secondary market business. The table below provides survey findings across various geographic regions and city types.

Table 6.2 Sub-brokers response on verification – Regions

| | All India | North | South | East | West | Mega Metro | Metro | Class 1 |
|---------------------------------|-----------|-------|-------|------|------|------------|-------|---------|
| PRIMARY MARKET CLIENTS | | | | | | | | |
| No of respondents | 239 | 56 | 44 | 44 | 95 | 60 | 121 | 55 |
| Verify | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| SECONDARY MARKET CLIENTS | | | | | | | | |
| No of respondents | 427 | 95 | 83 | 89 | 155 | 150 | 193 | 66 |
| Verify | 15% | 11% | 20% | 12% | 15% | 15% | 16% | 12% |
| FIXED DEPOSIT CLIENTS | | | | | | | | |
| No of respondents | 472 | 134 | 70 | 116 | 151 | 171 | 199 | 77 |
| Verify | 9% | 6% | 20% | 13% | 5% | 10% | 12% | 4% |

@ Class II respondents not presented as no of respondents not statistically relevant

The survey findings also rank the factors verified by the sub-brokers before they accept a new client. As no respondent admitted of verification before accepting a new primary market client, factor preference used for verification is not available for new primary market clients. In case of secondary market clients and FD clients, references and financial assets of the new clients appeared to be the main factors verified before taking on his business. This preference for references and financial assets was more or less similar across various regions and city types. The graph below gives the mean ranks obtained on various factors for evaluating a client.



6 2 Canvassing for new business

The respondents were asked

- Whether they canvass for new business, and
- Methods used for soliciting new business – the brokers were asked to list various factors used for verification. The question was asked separately for primary market clients, secondary market clients and fixed deposits clients (in case of sub-brokers)

6 2 1 Brokers

The survey findings indicate that not many brokers (34% at all India level in case of primary market business and 31% in case of secondary market business) canvass for new business. However, at 48% canvassing for primary market business appears to be much higher in case of the PMBs currently dealing only in primary markets. The level of canvassing for new business was lower in the case of western zone (only 18% in case of secondary market business and about 24% in case of primary market business). The table below provides survey findings across various geographic regions and city types.

Table 6 3 Brokers' response on canvassing – Regions

| | All India | North | South | East | West | Mega Metro | Metro | Class 1 |
|---------------------------------|-----------|-------|-------|------|------|------------|-------|---------|
| PRIMARY MARKET CLIENTS | | | | | | | | |
| No of respondents | 139 | 34 | 41 | 30 | 34 | 44 | 77 | 18 |
| Canvass | 34% | 32% | 39% | 40% | 24% | 20% | 44% | 22% |
| SECONDARY MARKET CLIENTS | | | | | | | | |
| No of respondents | 332 | 90 | 86 | 67 | 89 | 139 | 157 | 36 |
| Canvass | 31% | 39% | 34% | 34% | 18% | 29% | 38% | 11% |

The lower level of canvassing for the secondary market clients in the western zone in the secondary market may be explained by possibility of high incidence of walk-in business in this zone with the highest level of capital market investments.

The methods used for solicitation of new business were linked to the type of market. Use of brochures/pamphlets/visiting cards/handbills (36%), advertising in newspapers (19%), references (19%), mailing circulars to clients (11%) and support of sub-brokers (11%) were popular among brokers for solicitation of new business in the primary markets. On the other hand, personal/telephonic contacts (21%), providing latest market information (21%), asking existing clients/sub-brokers (18%) and references (15%) were popular methods for soliciting new business in secondary markets. Interestingly, fewer brokers were enthusiastic for use of brochures/pamphlets/handbills and advertising in newspapers for soliciting new business in secondary markets.

6 2 2 Sub-brokers

The level of canvassing appeared to be linked to the type of business sought. It is observed that majority of the sub-brokers (66%) did not canvass for new secondary

market clients. The level of such effort was the lowest in case of western zone where only 26% of the sub-brokers interviewed canvassed for new secondary market clients. Canvassing for new primary market clients was slightly higher with 47% of the sub-brokers canvassing for new business. The canvassing efforts for primary market clients were higher in the north zone (59%) with the least level of canvassing in the western zone (34%). For FD deposits a little over half the sub-brokers (54%) reported canvassing. The level of canvassing for FD deposits was slightly lower at 39% for eastern zone. The table below provides the survey findings across various geographic regions and city types.

Table 6.4 Sub-brokers response on canvassing – Regions

| | All India | North | South | East | West | Mega Metro | Metro | Class 1 |
|---------------------------------|-----------|-------|-------|------|------|------------|-------|---------|
| PRIMARY MARKET CLIENTS | | | | | | | | |
| No of respondents | 239 | 56 | 44 | 44 | 95 | 60 | 121 | 55 |
| Canvass | 47% | 59% | 54% | 48% | 34% | 43% | 50% | 43% |
| SECONDARY MARKET CLIENTS | | | | | | | | |
| No of respondents | 427 | 95 | 83 | 89 | 155 | 150 | 193 | 66 |
| Canvass | 34% | 40% | 35% | 42% | 26% | 33% | 36% | 35% |
| FD CLIENTS | | | | | | | | |
| No of respondents | 472 | 134 | 70 | 116 | 151 | 171 | 199 | 77 |
| Canvass | 54% | 68% | 63% | 39% | 50% | 43% | 62% | 58% |

@ Class II responses not presented as no of respondents not statistically significant

It is observed that the level of canvassing appears to be linked to the type of client. It is lowest in the case of secondary market transactions and highest for fixed deposits. For sub-broker (both primary and secondary market sub-brokers) category as a whole, as in case of all the brokers, the level of canvassing appears to be lowest in the Western zone, which could be due to possibly high incidence of walk-in business in that zone.

The survey findings also indicate the popular methods used by the sub-brokers for soliciting new business. Personal contacts/call over telephones, advertising in newspapers, references of existing clients, providing latest market information appear to be the most popular methods used for solicitation of new business. The table below lists the main methods used for canvassing across various market segments.

Table 6 5 Sub-brokers response on canvassing methods

| Method Used | Primary Market | Secondary Market | FD Market |
|--|----------------|------------------|-----------|
| Brochures/Pamphlets/ Visiting cards/ Handbills | 25% | - | 13% |
| Personal/Telephonic contacts | 19% | 23% | 23% |
| Advertising in newspapers | 17% | 19% | 14% |
| Word of Mouth from existing clients | 12% | 20% | 13% |
| Convincing of advantages of investment | 10% | 8% | 27% |
| References | 8% | 14% | 13% |
| Giving latest market information | | 17% | - |

As observed similar to the case of canvassing by brokers for solicitation of new business in the primary markets use of brochures/ pamphlets/ visiting cards/ handbills was very popular among sub-brokers for primary and fixed deposit business. Interestingly this method is not popular among sub-brokers for secondary market business. However providing latest market information was popular for soliciting new business in the secondary markets and it was not used much in primary markets and fixed deposits markets.

6 3 Level of Interaction with existing clients

The respondents were asked a question on method used for regular interaction with the existing clients. The card shown to them listed the following four options:

- Call the client advising him over telephone
- Deal with the client when he contacts you
- Meet the client to appraise him of new developments/ investment opportunities
- Send across a printed letter/ mailer

and asked the respondents to list the methods used by them. About 5% of the brokers did not answer and about 3% of the sub-brokers did not answer this question.

6 3 1 Brokers

Personal conversation over telephones (51% at all India level) and discussion with the client when he calls the financial intermediaries (46% at all India level) were the preferred methods among brokers to interact with the client. Among brokers, the personal meetings were restricted to some extent (32% at all India level). In Class I towns, brokers called up their clients more frequently than in other town types. However PMBs (48% for only PMBs category) were slightly more pro-active and met their clients more frequently than SMBs (31% for only SMBs category). It is observed that compared with PMBs more SMBs (48% for only SMBs category) interacted with their clients when they called up these SMBs. The table below lists various methods used across market segments.

Table 6 6 Brokers response on interaction with existing clients

| | All India | Only PMB | Only SMB | PMB SMB |
|--|-----------|----------|----------|---------|
| Total interviews | 372 | 40 | 233 | 99 |
| Meeting with clients | 32% | 47% | 31% | 30% |
| Conversation over telephones | 51% | 52% | 51% | 50% |
| Send across printed letter | 22% | 35% | 19% | 24% |
| Deal with clients when he calls you | 46% | 28% | 48% | 51% |

6 3 2 Sub-brokers

On an overall basis sub-brokers preferred personal conversation with the client over telephones (59% at all India level) and personal meeting with clients (52% at all India level) to apprise them of the latest market developments/ investment opportunities. Only about 30% of all sub-brokers responded that they sent across a printed letter/ mailer to the investors. Compared with SMSBs and PMSBs, FD Agents took the maximum initiative in approaching the FD clients. For only FD Agents category, at 61%, personal meeting with clients was the most important way to inform them of latest market developments / investment opportunities. Compared to high incidence of personal meetings with clients for FD deposits it is observed that only 36% of the SMSBs (only SMSBs category) responded that they meet the clients personally to apprise them of the latest market developments. The table below provides the survey findings across various market segments

Table 6 7 Sub-brokers response on interaction with existing clients

| | All India | Only PSMB | Only SMSBs | Only FDAs | PSMBs SMSBs & FDAs |
|-----------------------------------|-----------|-----------|------------|-----------|--------------------|
| Total interviews | 826 | 46 | 247 | 292 | 71 |
| Meeting with clients | 52% | 50% | 36% | 65% | 59% |
| Call up clients | 59% | 52% | 58% | 59% | 61% |
| Send across printed letter | 30% | 28% | 22% | 35% | 34% |
| Clients approach you | 31% | 39% | 37% | 21% | 38% |

It is observed that compared with brokers the sub-brokers were more proactive in their approach towards clients

6.4 Services rendered to the clients

Respondents were asked to list the services rendered to the investors. The show card listed 8 options and others. The respondents were asked to answer all the services they offered to their clients.

6.4.1 Brokers

Among brokers, providing application forms (64% at all India level), collection & deposit of application forms (57% at all India level), providing clients with the latest investment information (68% at all India level), providing research analysis (34% for all India level) were the main services rendered to the investors. In addition, some brokers also did tax planning for (20% at all India level) and provided immediate finance to their clients (18% at all India level) by way of temporary loans and spot financing. Further, the incidence of providing, collecting and depositing application forms was slightly lower in case of western zone. **This suggests possibility of high incidence of walk-in business and high level of trading business in the Zone contributing maximum investment to the Indian capital markets.** The table below provides the survey findings across various market segments.

Table 6.8 Services rendered to the clients – Brokers

| Services Provided | All -India | Only PMBs | Only SMBs | PMBs & SMBs |
|-----------------------------------|------------|-----------|-----------|-------------|
| | 372 | 40 | 233 | 99 |
| Provide application forms | 64% | 83% | 53% | 84% |
| Collect & deposit forms | 57% | 73% | 46% | 77% |
| Supply new investment information | 68% | 88% | 59% | 80% |
| Provide research & analysis | 34% | 40% | 29% | 44% |
| Do tax planning | 21% | 37% | 12% | 33% |
| Spot financing | 18% | 15% | 15% | 29% |
| Temporary loans | 15% | 13% | 16% | 15% |
| Portfolio Management | 18% | 20% | 16% | 23% |
| Others | 2% | - | 3% | 3% |

It is observed that incidence of providing application forms, collecting & depositing them is higher in case of PMBs (about 80% for only PMBs category) than for SMBs.

6.4.2 Sub-brokers

For all sub-brokers, providing application forms (75% at all India level), collection & deposit of application forms (71% at all India level), providing clients with new investment information (75% at all India level) were the main services rendered to the investors. In addition, some sub-brokers also provided research analysis (30% at all India level), did tax planning for (36% at all India level) and provided immediate finance

to their clients (about 15^{0/} at all India level) by way of temporary loans and spot financing

Table 6 9 Services rendered to the clients – Sub-brokers

| Services Provided | All - India | Only PMSBs | Only SMSBs | Only FDAs | PMBs SMBs & FDAs |
|-----------------------------------|-------------|------------|------------|-----------|------------------|
| | 826 | 46 | 247 | 292 | 71 |
| Provide application forms | 75% | 89% | 52% | 80% | 94% |
| Collect & deposit forms | 71% | 78% | 44% | 79% | 89% |
| Supply new investment information | 75% | 76% | 59% | 82% | 91% |
| Provide research & analysis | 30% | 22% | 35% | 28% | 37% |
| Do tax planning | 36% | 33% | 18% | 47% | 48% |
| Spot financing | 16% | 6% | 22% | 6% | 37% |
| Temporary loans | 9% | 2% | 8% | 9% | 15% |
| Portfolio Management | 17% | 2% | 17% | 10% | 29% |
| Others | 2% | - | 5% | 2% | 3% |

It is observed that for only SMSBs category, incidence of providing application forms collection & deposit of application forms was slightly lower when compared with only PMSBs and only FD agents categories

6 5 Level of influence exercised on investment decision

Respondents were questioned on

- Whether clients consult RFIs for their investment decisions – the respondents were asked to choose one of the four options listed on the show card
- Factors considered significant while advising their clients – This was an open-ended question and the respondents were asked to list the important factors

6 5 1 Brokers

A sizeable proportion of all brokers interviewed (42% on all India basis) believed that investors consulted them always or most of the times before making investment decisions. It appeared that a high proportion of brokers believed that investors consulted brokers (both primary and secondary) always or most of the times in the eastern zone before making investment decision. The tendency of the investors to consult brokers the brokers believed was slightly higher (about 48% for PMBs only category) for primary market brokers as compared to SMBs (37% for only SMBs category). The table below provides the survey findings across various market segments

Table 6 10 Influence on clients investment decisions – brokers

| | All India | Only PMBs | Only SMBs | PMBs SMBs |
|--|-----------|-----------|-----------|-----------|
| Total interviews | 372 | 40 | 233 | 99 |
| Investor does not consult | 18% | 10% | 24% | 8% |
| Investor consults sometimes | 40% | 42% | 39% | 41% |
| Investor consults most of the times | 28% | 23% | 25% | 37% |
| Investor consults always | 14% | 25% | 12% | 14% |

The survey findings also indicate that the brokers consider return on investment (29% on all India basis) safety of investment (22% on all India basis), needs of the investors (14% on all India basis) current market position and financial position of the client significant before they advise their clients. Interestingly, for the eastern zone though the return on investment and safety of investment were considered important factors while advising a client few brokers (both PMBs and SMBs) identified needs of the investors to be an important criterion while advising on investment decision.

6 5 2 Sub-brokers

A vast majority of the sub-brokers interviewed (64% at all India level) believed that the investors consulted them (always and most of the times) before making investment decisions. The sub-brokers believed that the habit of consulting sub-brokers before making investment decisions was much higher in case of the eastern zone. However, sub-brokers felt that they are consulted many more times than brokers. The table below provides survey findings across various market segments.

Table 6 11 Influence on clients investment decisions – sub-brokers

| | All India | PMSBs Only | SMSBs Only | FDAs Only | PMSBS MSB & FDA |
|--|-----------|------------|------------|-----------|-----------------|
| Total interviews | 826 | 239 | 427 | 292 | 71 |
| Investor does not consult | 7% | 9% | 12% | 6% | - |
| Investor consults sometimes | 29% | 36% | 35% | 23% | 30% |
| Investor consults most of the times | 38% | 32% | 30% | 42% | 45% |
| Investor consults always | 26% | 23% | 33% | 29% | 25% |

It was observed that the benefits accruing to the investors (36% at all India level) safety/ security of the client's investments (25% at all India level) needs of customers (10% at all India level) financial position of the Company (8% at all India level) and background of the Company (7% at all India level) were the factors considered significant by all sub-brokers/ FD agents while advising their clients. It is observed that all categories of sub-

brokers considered benefits/ return on investment most important factor while advising on investment decision

6 6 Provision of receipts to investors

Respondents were asked whether they provide any receipt to their clients while undertaking transactions on their behalf. The show card listed four options and the respondents were asked to opt for one of these

6 6 1 Brokers

A vast majority of all brokers (79% at all India level) responded they provide receipts to their clients for all the transactions. However in south zone incidence of providing receipts to their clients was slightly higher and for eastern zone it was slightly lower. At the overall level the incidence of providing receipts to the investors was slightly lower in case of primary brokers (67% for only PMBs category). The abridged findings of the survey are as follows

Table 6 12 Provision of receipts to clients – brokers

| | All India | Only PMBs | Only SMBs | PMBs & SMBs |
|--|-----------|-----------|-----------|-------------|
| Total interviews | 372 | 40 | 233 | 99 |
| Receipt provided for all transactions | 79% | 67% | 77% | 86% |
| Receipt provided sometimes | 16% | 25% | 18% | 12% |
| Receipt provided to clients who ask | 5% | 8% | 5% | 2% |
| No receipt provided | | - | | - |

Surprisingly in case of brokers no respondent exercised the option – no receipt provided

6 6 2 Sub-brokers

A majority of the sub-brokers/ FD agents (64% at all India level) responded that they provide receipts to their clients for all their transactions. Incidence of providing receipts was slightly lower in case of sub-brokers compared with brokers as a group. Further, it is observed that compared with SMSBs (Only SMSBs category) at 73%, fewer PMSBs (only PMSBs category) provided receipts to their clients (50%)

Table 6 13 Provision of receipts to clients – sub-brokers

| | All India | PMSBs Only | SMSBs Only | FDAs Only | PMSB SMSB & FDA |
|---------------------------------------|-----------|------------|------------|-----------|-----------------|
| Total interviews | 826 | 239 | 247 | 292 | 71 |
| Receipt provided for all transactions | 64% | 50% | 73% | 63% | 56% |
| Receipt provided sometimes | 11% | 11% | 13% | 6% | 24% |
| Receipt provided to clients who ask | 9% | 9% | 6% | 12% | 4% |
| No receipt provided | 16% | 30% | 8% | 19% | 16% |

7 Conclusions

7.1 Introduction

The objective of the survey was to gain an understanding of the RFIs – their profiles products they deal with their relationships with other RFIs and their interaction with clients. The focus of the study was limited to the Capital Markets (Primary and Secondary Market Intermediaries) along with Fixed Deposit Agents. Additionally, the study was limited to those intermediaries who are active in the retail segment.

The survey involved interviews with 1198 RFIs across India. The intermediaries included a mix of PMBs, SMBs, PMSBs, SMSBs and FDAs.

7.2 Overview and Market Structure

The financial markets are characterised by a high degree of fluidity, with intermediaries dealing in a range of products, and identifying themselves as RFIs in multiple segments.

There was a significant overlap in terms of the roles that RFIs identified themselves with. Given the subdued situation in the Primary Markets, it was not surprising to note that only 11% of Brokers identified themselves as Only PMBs, while 27% of Brokers identified themselves as being active as Brokers in both the Primary and Secondary Markets. Brokers are currently more focused on the Secondary Market Instruments. However, there are indications that a larger number were active in Primary Markets (and Mutual Funds and Private Placements) during the Peak Period of 1994-95. Examining the product portfolios of brokers at large, the survey findings indicate that Brokers often deal with Instruments in other market segments as Sub-Brokers. A sub-broker is more likely, as compared to a Broker, to be active in a wider range of non-capital market instruments like Fixed Deposits and Life Insurance.

The Primary Market is characterised by a multiplicity of relationships. Further, the survey indicates that there are at least three levels of intermediaries (PMBs, PMSBs and Sub-sub-brokers/agents working with PMSBs) even in the prevailing market conditions. On the basis of the citywise estimates made by Primary Market Intermediaries, the number of Primary Market Intermediaries currently active in the Retail segment across towns with a population more than 100,000 in India is estimated to be in the range of 1,200 PMBs and 7,000-10,000 PMSBs.

The survey findings indicate that the Primary Issue Distribution chain has a great extent of fluidity in its structure, with Primary Market intermediaries having relationships across levels of intermediaries. For instance, Merchant Banks (MBs) and Corporates work with both PMBs as well as with PMSBs. Further, PMBs work with PMSBs but also service clients directly. On an average, PMSBs work with a number of MBs and PMBs at the supply end, and additionally, take the assistance of Sub-sub-brokers at the demand side to service their clients.

The secondary market is also characterised by a high degree of inter-linkages and

a multiplicity of relationships Again at least three levels of intermediaries were reported to be operating in the market On the basis of the citywise estimates made by Secondary Market Intermediaries, the number of Secondary Market Intermediaries currently active in the Retail segment across India is estimated to be in the range of 3,500 SMBs and 20,000 SMSBs

SMBs reported being members of more than one stock exchange, as well as working with brokers on stock exchanges they are not members of As such, they are working both as brokers as well as sub-brokers Though SEBI requires that all SMSBs be registered with SEBI through a SMB the survey findings indicate that more than 50% of SMSBs met work with a number of SMBs Moreover, the SMSBs service a larger client base as compared to SMBs

On the basis of the survey findings, we estimate that the number of active FDAs across towns with population more than 100,000 in India to be in the range of 50,000 The number may be significantly higher in Class II towns While 97% of FDAs reported that they did not have agents working under them for mobilising fixed deposits, 52% had clients who brought in additional business FDAs reported that on an average they directly serviced around 400 individual clients

7.3 Profile of the RFI

7.3.1 Brokers

The survey findings indicate that an average Indian capital market broker (both primary and secondary markets) is well educated (94% of brokers interviewed are graduates and above) around 40 years of age and has about a decade's work experience in the capital markets In addition to the attractive levels of returns perceived in the business the broker professed that his initial interest as an investor and analyst, together with his family background persuaded him to enter the broking profession Although formally trained only in one of four cases an average broker today recognises the importance of training as a tool of professional development and admits that training can help him enhance his business Further, he also feels that formal training is quite essential for entering the broking profession today Also one in every two brokers has typically attended 3-4 conferences/ seminars in the past one year

The average broker keeps himself professionally updated with developments in market and products by reading information and analysis appearing in financial newspapers and magazines In addition company annual reports and market buzz are other important sources of information for him Surprisingly though, the broker makes limited use of research reports Despite uncertainty prevailing in the markets the broker is there for the long term He is confident of staying on in the profession because he perceives that there is money to be made in the business by leveraging his interest in the profession and the knowledge and expertise gained through years of experience

The average broker operates as a proprietary concern but in general is well equipped with telephones fax and computers Nearly one out of two have access to BSE/NSE terminals

In the secondary markets the broker has increasingly concentrated on square-off trading even while continuing delivery based business as he felt the impact of bad deliveries on his delivery based business

7 3 2 Sub-brokers

The survey findings suggest that an average Indian financial market sub-broker (capital market sub-brokers and FD agents) is 37 to 38 years old well educated (with 85% of those interviewed being graduates or above) and with about 8 years of experience in the financial markets. However often he (about a quarter of those interviewed) is a part-time sub-broker deriving less than half his income from other sources including service, business trading etc. Possibility of higher monetary gains, personal interest and family background led him to join the broking profession. While having little training himself, he acknowledges that formal training can enhance his business interests and that formal training is essential for entering the profession in current times. His participation level in conferences/ seminars is not very high having attended an average of about 3.5 such events in the past one year.

Like brokers the sub-broker too depends largely on analysis and reports appearing in financial newspapers and magazines. He also reads company annual reports and listens to other brokers recommendations for keeping himself updated with market happenings and related developments. While markets are not as favourable as he would like, the sub-broker in general is confident of staying on in the profession.

The sub-broker typically operates as a proprietary concern. While one out two have their own offices often the place of operation for him may be his home or his broker's office. In terms of infrastructure the main equipment aiding his operations is a telephone. He is yet to make computers a significant part of his operations.

Like his broker counterpart the sub-broker too has considerable interest in square-off business with bad deliveries affecting his delivery-based business.

7 4 Relationships with Intermediaries

7 4 1 Primary Markets

The survey findings indicate that surprisingly, in primary markets not many (only 35%) PMBs reported having sub-brokers. On the other hand almost all PMSBs (81% associated with PMBs and 17% with Merchant Bankers) reported association with their senior level financial intermediaries. More than two-thirds of these PMBs require their sub-brokers to provide verifications before being associated with them and attached more importance to past performance and references. Less than two-third of these brokers entered into formal documentation with their sub-brokers. Similarly about half of sub-brokers interviewed reported that they had formal documentation with their brokers.

7 4 2 Secondary Markets

In secondary markets not many brokers (only 40%) reported having sub-brokers. About a fifth also reported having clients who brought additional business. About two-third of these SMBs having sub-brokers asked them for verifications before associating with them and considered references and 'financial assets' more important. About similar number of brokers had formal documentation with their sub-brokers, half of them using the standard format provided by their stock-exchanges. Not many brokers (only 15%) had SEBI registered sub-brokers and all of them required a security deposit from their sub-brokers. Surprisingly this figure was at 40% in case of brokers having unregistered sub-brokers. The primary reasons given by brokers for lower level of non-registration of sub-brokers included "reluctance of sub-brokers to get registered and unwillingness of brokers to assume all responsibility". Some brokers work with both registered and unregistered sub-brokers.

However, more than half of sub-brokers interviewed reported association with more than one secondary market broker. Though over two-thirds of sub-brokers reported awareness of SEBI registration requirement, not many (about 38%) reported having SEBI registration numbers.

7 5 Relationships with Clients

7 5 1 Primary Markets

The survey findings indicate that not many brokers and sub-brokers verify the client's background before accepting a new primary market client. In primary markets, more brokers and sub-brokers canvassed for new business than in the secondary markets. Use of brochures/ pamphlets/ visiting cards/ handbills, advertising in newspapers, existing clients' references and personal/ telephonic contacts were the popular methods used for canvassing. Again, primary market intermediaries were slightly more proactive and personally met their clients more frequently than their counterparts in the secondary markets. Distribution and collection of application forms and updating clients on new investment opportunities were the main services provided to the clients. Some intermediaries also did tax planning for their clients. These intermediaries felt that investors consulted them a few times before making investment decisions. Primary market brokers and sub-brokers also provided receipts to their clients but compared with sub-brokers, more primary market brokers provided receipts to their clients.

7 5 2 Secondary Markets

The survey findings indicate that incidence of client's background verification is higher in the secondary market as compared to primary market, and most of the brokers verify a client's background before taking a new client. They give maximum importance to references and 'financial assets' of the clients. In secondary markets, the level of canvassing for new business was lower as compared with primary markets. Personal/ telephonic contacts, providing latest market information and existing clients' references

were mostly used methods for canvassing. Compared with primary markets, secondary market intermediaries did not use brochures/ handbills/ pamphlets etc. Telephonic conversation and dealing with clients when they called you were the commonly used methods for regular interaction with the clients. The services provided to the clients included distribution and collection of application forms and to some extent research analysis. Fewer interviewees felt that investors consulted them before making investment decisions. Secondary market intermediaries usually provided receipts to their clients.

The survey findings indicate that an average Indian financial market sub-broker rarely verified his client's background before taking a new client except once or twice in case of a secondary market client. Surprisingly, as in case of main brokers, he also does not canvass for new clients except sometimes for FD business. He is generally more proactive than brokers in his interaction with his existing clients. He uses telephonic conversations and personal meetings with clients to maintain contacts with his existing clients. Distribution and collection of application forms are the main services provided to the clients. He feels that the clients consult him most of the times before making any investment decisions. Most of the times, he provides receipts to his clients for their transactions.

Survey of Retail Financial Intermediaries
FIRE PROJECT
July 31 1998

Annex A – Survey Design

- **Sampling Plan**
- **Questionnaires**

*Survey of Retail Financial Intermediaries
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Sampling Plan

The sample size achieved for the survey is as follows

| Name of City | Type of City | Total | Primary Market Broker | Sub-Broker | Secondary Market Broker | Sub-Broker | FD Agents |
|-------------------|--------------|-------------|-----------------------|------------|-------------------------|------------|------------|
| North Zone | | | | | | | |
| New Delhi | MM | 138 | 14 | 20 | 44 | 40 | 54 |
| Kanpur | M | 23 | 1 | 1 | 13 | 10 | 1 |
| Lucknow | M | 34 | 3 | 1 | 5 | 14 | 16 |
| Ludhiana | M | 34 | 9 | 18 | 11 | 6 | 18 |
| Chandigarh | C1 | 18 | 1 | 4 | 5 | 11 | 3 |
| Jaipur | M | 39 | 6 | 6 | 12 | 8 | 19 |
| Shimla | C1 | 14 | | 6 | | 4 | 13 |
| Barabanki | C2 | 12 | | | | 2 | 10 |
| West Zone | | | | | | | |
| Mumbai | MM | 132 | 8 | 17 | 36 | 52 | 50 |
| Pune | M | 27 | 6 | 6 | 13 | 10 | 8 |
| Nagpur | M | 31 | | 13 | | 26 | 13 |
| Ahmedabad | M | 43 | 2 | 11 | 10 | 15 | 19 |
| Baroda | C1 | 32 | 9 | 9 | 13 | 10 | 5 |
| Rajkot | C1 | 16 | 1 | 7 | 3 | 6 | 8 |
| Indore | M | 32 | 8 | 5 | 13 | 6 | 12 |
| Bhopal | C1 | 10 | | 6 | | 8 | 7 |
| Jabalpur | C1 | 15 | | 7 | | 5 | 6 |
| Panaji | C1 | 17 | | 11 | | 6 | 9 |
| Manmad | C2 | 6 | | 3 | | 3 | 4 |
| Ankleswar | C2 | 5 | | | | 5 | 1 |
| South Zone | | | | | | | |
| Chennai | MM | 55 | 8 | 9 | 26 | 15 | 13 |
| Coimbatore | M | 43 | 4 | 5 | 12 | 13 | 17 |
| Cochin | M | 16 | 4 | 4 | 9 | 5 | 3 |
| Trivandrum | M | 11 | 3 | 4 | 3 | 8 | 2 |
| Bangalore | M | 48 | 13 | 8 | 12 | 11 | 15 |
| Mangalore | C1 | 20 | 7 | | 16 | 3 | |
| Hyderabad | M | 31 | 2 | 7 | 9 | 21 | 6 |
| Vijayawada | C1 | 15 | | 5 | | 5 | 10 |
| Madanapalle | C2 | 8 | | 2 | | 2 | 4 |
| East Zone | | | | | | | |
| Calcutta | MM | 134 | 14 | 14 | 33 | 43 | 54 |
| Asansol | C1 | 20 | | | | 8 | 16 |
| Bhubaneshwar | M | 40 | 7 | 13 | 12 | 10 | 19 |
| Guwahati | M | 22 | 4 | 9 | 13 | 9 | 9 |
| Patna | M | 42 | 5 | 8 | 9 | 19 | 18 |
| Ranigunj | C2 | 15 | | | | 8 | 10 |
| TOTAL | | 1198 | 139 | 239 | 332 | 427 | 472 |

Category wise Sampling Plan

| Name of City | Type of City | Total | Type of Interview | |
|-------------------|--------------|-------------|-------------------|------------|
| | | | Broker | Sub-Broker |
| North Zone | | | | |
| New Delhi | MM | 138 | 46 | 92 |
| Kanpur | M | 23 | 13 | 10 |
| Lucknow | M | 34 | 5 | 29 |
| Ludhiana | M | 34 | 14 | 21 |
| Chandigarh | C1 | 18 | 5 | 14 |
| Jaipur | M | 39 | 13 | 27 |
| Shimla | C1 | 14 | | 14 |
| Barabanki | C2 | 12 | | 12 |
| West Zone | | | | |
| Mumbai | MM | 132 | 39 | 97 |
| Pune | M | 27 | 14 | 13 |
| Nagpur | M | 31 | | 31 |
| Ahmedabad | M | 43 | 12 | 32 |
| Baroda | C1 | 32 | 15 | 20 |
| Rajkot | C1 | 16 | 3 | 15 |
| Indore | M | 32 | 14 | 18 |
| Bhopal | C1 | 10 | | 10 |
| Jabalpur | C1 | 15 | | 15 |
| Panaji | C1 | 17 | | 17 |
| Manmad | C2 | 6 | | 6 |
| Ankleswar | C2 | 5 | | 5 |
| South Zone | | | | |
| Chennai | MM | 55 | 27 | 27 |
| Coimbatore | M | 43 | 13 | 30 |
| Cochin | M | 16 | 9 | 7 |
| Trivandrum | M | 11 | 3 | 8 |
| Bangalore | M | 48 | 22 | 26 |
| Mangalore | C1 | 20 | 17 | 3 |
| Hyderabad | M | 31 | 10 | 21 |
| Vijayawada | C1 | 15 | | 15 |
| Madanapalle | C2 | 8 | | 8 |
| East Zone | | | | |
| Calcutta | MM | 134 | 41 | 93 |
| Asansol | C1 | 20 | | 20 |
| Bhubaneshwar | M | 40 | 12 | 28 |
| Guwahati | M | 22 | 13 | 10 |
| Patna | M | 42 | 12 | 30 |
| Ranigunj | C2 | 15 | | 15 |
| TOTAL | | 1198 | 372 | 826 |

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FIRE PROJECT
July 31, 1998

Questionnaires

- Brokers questionnaire
- Sub-brokers questionnaire

- A ONLY PRIM MKT
- B ONLY SEC MKT
- C BOTH PRIM & SEC MKT
- D PRIM MKT & F D
- E SEC MKT & F D
- F - ALL 3 i.e PRIM SEC FD

4 Do you also transact business through a broker at any other stock exchange of which you are not a member?

- Yes 1 GO TO Q 5
- No 2 GO TO Q 6

5 IF YES Which ones? LIST THE STOCK EXCHANGES

6 ASK ALL Can you tell me the names of all financial instruments you used to deal in during the peak period of 1994-1995? HAND OVER INSTRUMENTS CARD

7 Can you tell me the names of all financial instruments that you deal in currently?

8 SHOW INSTRUMENTS CARD You said that you deal in FROM Q 7 Now if you were to break-up your annual business into then what would the proportion be ?

MENTION RESPONSE various types of financial instruments

| | Q 6 Dealt with in 94 95 | Q 7 Deal in Currently | Q 8 % proportion out of 100 |
|--|----------------------------|--------------------------|-----------------------------------|
| Secondary Markets (shares and debentures) | 1 | 1 | |
| Primary Market (shares debentures and bonds) | 2 | 2 | |
| UTI schemes | 3 | 3 | |
| Other Mutual Fund schemes | 4 | 4 | |
| Private Placements | 5 | 5 | |
| Fixed Deposits | 6 | 6 | |
| LIC schemes | 7 | 7 | |
| Tax Saving instruments like NSC/PPF etc | 8 | 8 | |
| Chit Funds | 9 | 9 | |
| Plantation Schemes | 10 | 10 | |
| Other s SPECIFY | 11 | 11 | |

- IF NOTHING CODED BETWEEN 1 AND 6 OR 5 IS CODED IN Q 1 THEN TERMINATE INTERVIEW BUT MAINTAIN THIS SHEET
- IF 2 CODED IN Q 1 THEN YOU MUST ASK ALL QUESTIONS PERTAINING TO SECONDARY MARKET IN ADDITION TO THE COMMON QUESTIONS
- IF 1 AND / OR 3 IS CODED IN Q 1 THEN YOU MUST ASK ALL QUESTIONS PERTAINING TO PRIMARY MARKET IN ADDITION TO THE COMMON QUESTIONS

A ONLY PRIM MKT
 B ONLY SEC MKT
 C BOTH PRIM & SEC MKT
 D PRIM MKT & F D
 E SEC MKT & F D
 F - ALL 3 i.e PRIM SEC FD

- FIRST CODE IN EACH PAGE AS TO WHETHER YOU HAVE TO ASK ABOUT
 - A - ONLY PRIMARY MARKET
 - B - ONLY SECONDARY MARKET
 - C - BOTH SECONDARY MARKET AND PRIMARY MARKET
 - D - PRIMARY MARKET + FIXED DEPOSITS
 - E - SECONDARY MARKET + FIXED DEPOSITS
 - F - ALL i.e SECONDARY MARKET, PRIMARY MARKET AND FIXED DEPOSITS
 - G - ONLY FD AGENT

9 If you were to divide your total business on an average between retail business and institutional business then what proportion would you allocate to each of them?

Retail business % out of 100
 Institutional business % out of 100

IF RETAIL BUSINESS IS 25% OR LESS THEN TERMINATE OR ELSE CONTINUE

ASK Qs 10 TO 12 TO ONLY THOSE WHO ARE SECONDARY MARKET BROKERS

10 What percentage of your retail business falls under the following categories?

Square-off business %
 Delivery based business %

 100 %

11 **SHOW LADDER SCALE CARD** Please look at this card on which there is ladder with ratings ranging from 5 to 0 I am going to read out some statements to you As I read out each statement please tell how you would rate the statement affecting the delivery based secondary market business A rating of 5 would indicate that the reason has affected most in the delivery business and a rating of 0 would indicate the reason has affected least in the delivery based **READ OUT EACH STATEMENT ONE AT A TIME TAKE RATINGS ON ALL THE STATEMENTS START FROM STARRED STATEMENT**

| | Most | | | | | Least | |
|--|------|---|---|---|---|-------|----|
| | 5 | 4 | 3 | 2 | 1 | 0 | DK |
| Fear or bad delivery due to process | 5 | 4 | 3 | 2 | 1 | 0 | DK |
| Fear of bad delivery due to false / forged and stolen shares | 5 | 4 | 3 | 2 | 1 | 0 | DK |
| Poor service from Registrars and Transfer agents | 5 | 4 | 3 | 2 | 1 | 0 | DK |
| Loss of Investor confidence in Financial intermediaries | 5 | 4 | 3 | 2 | 1 | 0 | DK |
| Loss of faith in Corporates | 5 | 4 | 3 | 2 | 1 | 0 | DK |

12 Have you reduced your delivery based business due to a fear of bad deliveries?

Yes 1
 No 2

A ONLY PRIM MKT
 B ONLY SEC MKT
 C BOTH PRIM & SEC MKT
 D PRIM MKT & F D
 E SEC MKT & F D
 F - ALL 3 i.e PRIM SEC FD

13 **ASK ALL** What is the total number of direct individual clients that you have currently?

14 Has the number of direct individual clients that you have currently increased decreased or remained the same as compared to the peak period of 1994 95?

| | |
|-------------------|---|
| Increased | 1 |
| Decreased | 2 |
| Remained the same | 3 |

15 Why do you feel that your number of direct individual clients have **MENTION RESPONSE FROM Q 14 ? PROBE THOROUGHLY AND RECORD VERBATIM**

16 Do you deal with clients who do not have a reference?

| | |
|-----|---|
| Yes | 1 |
| No | 2 |

17 Has your overall income increased decreased or remained the same as compared to the market peak?

18 If you were to mention specifically o Primary markets business then what would your answer be?

19 And what about the Secondary Market?

| | 17 Overall | 18 Primary | 19 Secondary | |
|-------------------|---------------|---------------|-----------------|---|
| Increased | 1 | 1 | 1 | 1 |
| Decreased | 2 | 2 | 2 | 2 |
| Remained the same | 3 | 3 | 3 | 3 |

21 What are your reasons for saying that the Overall Income as compared to market peak will **MENTION RESPONSE FROM Q17 ?**

- A ONLY PRIM MKT
- B ONLY SEC MKT
- C BOTH PRIM & SEC MKT
- D PRIM MKT & F D
- E SEC MKT & F D
- F - ALL 3 i.e PRIM SEC FD

SECTION I- GENERAL

ASK Qs 22 TO 23 TO ONLY THE SECONDARY MARKET BROKERS

22 Can you give me your best estimate of the number of active secondary market brokers in the city ?

In 94 95

Currently

In the future
(2 3 years)

23 Why do you feel this number will **MENTION THE RESPONSE AS INCREASE / DECREASE / REMAIN THE SAME** as compared to currently? **PROBE THOROUGHLY AND RECORD VERBATIM**

ASK Qs 24 TO 25 ONLY THE PRIMARY MARKET BROKERS

24 Can you give me your best estimate of the number of active Primary Market brokers in the city ?

In 94 95

Currently

In the future
(2 3 years)

25 Why do you feel this number will **MENTION THE RESPONSE AS INCREASE / DECREASE / REMAIN THE SAME** as compared to currently? **PROBE THOROUGHLY AND RECORD VERBATIM**

A - ONLY PRIM MKT
 B - ONLY SEC MKT
 C - BOTH PRIM & SEC MKT
 D - PRIM MKT & F D
 E - SEC MKT & F D
 F - ALL 3 i.e PRIM SEC FD

SECTION II - BROKER – SUB BROKER RELATIONSHIP

ASK IF PRIMARY MARKET BROKERS

- 26 Do you have any primary market sub-brokers working for you?
- | | | |
|-----|---|-----------------------|
| Yes | 1 | IF YES ASK How many - |
| No | 2 | |

ASK Q 27 TO Q 31 TO SECONDARY MARKET BROKERS

- 27 Do you have any sub brokers working for you?
- | | | |
|-----|---|-----------------------|
| Yes | 1 | IF YES ASK How many - |
| No | 2 | |
- 28 How many of your secondary sub-brokers have SEBI registration numbers?

IF THE NUMBERS BETWEEN Q27 & Q28 ARE DIFFERENT THEN ASK Q 29 ELSE GO TO Q31

- 29 Why have you not registered all your sub-brokers?
- | | |
|---|---|
| Sub-brokers do not want to get registered | 1 |
| I don t want to take total responsibility for all their actions | 2 |
| I don t see the need for registration | 3 |
| Other reasons SPECIFY | 4 |
| | 5 |

- 30 Do you have any client who regularly brings in additional business from other people?
- | | | |
|-----|---|-----------------------|
| Yes | 1 | IF YES ASK How many - |
| No | 2 | |

- 31 What percentage of your retail trading business is contributed by **READ OUT OPTIONS**
- | | |
|---------------------------|---|
| Direct individual clients | % |
| Registered sub-brokers | % |
| Unregistered sub-brokers | % |

ASK AS APPLICABLE

- 32 Do you seek verifications from the primary sub broker before you appoint him ?
 Do you seek verifications from the secondary sub-broker before you appoint him ?
- | | | |
|-----|---------|-----------|
| | Primary | Secondary |
| Yes | 1 | 1 |
| No | 2 | 2 |

- 33 **SHOW VERIFICATIONS CARD** Can you please look at this card on which are listed the various factors that you may use to evaluate a primary sub-broker before appointing him? Can you

A ONLY PRIM MKT
 B ONLY SEC MKT
 C BOTH PRIM & SEC MKT
 D PRIM MKT & F D
 E SEC MKT & F D
 F - ALL 3 i.e PRIM SEC FD

rank them in order of importance?
 What about the secondary market sub-broker ?

Primary Secondary

Financials / Assets
 Family background
 Bank record
 References
 Past performance
 Other details **SPECIFY**
SPECIFY
SPECIFY

- 34 Is there any formal documentation drawn up between you and the primary market sub-broker?
 Is there any formal documentation drawn up between you and the Secondary market sub-broker ?

| | Primary | Secondary |
|-----|---------|-----------|
| Yes | 1 | 1 |
| No | 2 | 2 |

ASK Qs 35 -37 ONLY TO SECONDARY MARKET BROKERS

- 35 Do you use any standard format provided by the stock exchange for the agreement?
 Yes 1 **GO TO Q 36**
 No 2 **GO TO Q 38**
- 36 Do you enter into the same agreement with all your sub-brokers irrespective of their registration status?
 Same 1 **GO TO Q 38**
 Different 2 **GO TO Q 37**
- 37 What are the major differences that are drawn up between the registered broker and a sub-broker?

- 38 Do you require a security deposit from your registered sub-broker / unregistered sub-broker?

| | Registered Sub-Broker | Unregistered Sub-Broker |
|-----|-----------------------|-------------------------|
| Yes | 1 | 1 |
| No | 2 | 2 |

- 39 What factors does the amount of security deposit required by you depend on ?

A ONLY PRIM MKT
 B ONLY SEC MKT
 C BOTH PRIM & SEC MKT
 D PRIM MKT & F D
 E SEC MKT & F D
 F - ALL 3 i e PRIM SEC FD

| | |
|---------------------------------------|---|
| Volume of business generated | 1 |
| Square off or delivery | 2 |
| Registered vs unregistered sub broker | 3 |

40 Do you ask for the names of the clients of your unregistered sub broker in all the cases or some of the cases or in none of the cases?

What is the practice in the case of registered sub broker?

| | Unregistered sub-brokers | Registered sub-brokers |
|--------------|--------------------------|------------------------|
| All of them | 1 | 1 |
| Some of them | 2 | 2 |
| None of them | 3 | 3 |

41 **SHOW SUPPORT SERVICES CARD** What support services do you provide to your primary market sub brokers ?

42 What about the secondary market sub-brokers ?

| | Q41 | Q42 |
|--|-----|-----|
| Infrastructure support (office space telephone etc) | 1 | 1 |
| Access to On-line trading | 2 | 2 |
| Market information | 3 | 3 |
| Company information | 4 | 4 |
| Financial backup / credit facility | 5 | 5 |
| Research Analysis | 6 | 6 |
| Marketing support | 7 | 7 |
| Others SPECIFY | 8 | 8 |

A ONLY PRIM MKT
 B ONLY SEC MKT
 C BOTH PRIM & SEC MKT
 D PRIM MKT & FD
 E SEC MKT & FD
 F - ALL 3 i.e PRIM SEC FD

SECTION III - CLIENT RELATIONSHIP

43 Do you seek any verification from a primary market client or check his background before you take on his business?
 Do you seek any verification from a secondary market client or check his background before you take on his business?

| | Primary | Secondary |
|-----|---------|-----------|
| Yes | 1 | 1 |
| No | 2 | 2 |

44 **SHOW VERIFICATIONS CARD** Can you please look at this card on which are listed the various factors that you may use to evaluate a primary market before taking on his business? Can you rank them in order of importance? What about your secondary market clients?

Primary Secondary

- Financials / Assets
- Family background
- Bank record
- References
- Other details
- SPECIFY**

45 Do you canvass for new clients and new business in the primary market?
 What about clients in the secondary market?

| | Primary | Secondary |
|-----|---------|-----------|
| Yes | 1 | 1 |
| No | 2 | 2 |

46 How do you canvass for new clients and new business in the primary market? **PROBE THOROUGHLY AND RECORD VERBATIM**

47 How do you canvass for new clients and new business in the secondary market? **PROBE THOROUGHLY AND RECORD VERBATIM**

48 Let's talk about the way you deal with your clientele. Which of these phrases would

A ONLY PRIM MKT
 B ONLY SEC MKT
 C BOTH PRIM & SEC MKT
 D PRIM MKT & F D
 E SEC MKT & F D
 F - ALL 3 i.e PRIM SEC FD

best describe the interaction between you and your client? **SHOW INTERACTION CARD**

- | | |
|---|---|
| Meet the client to appraise him of new developments / investment opportunities | 1 |
| Call the client advising investment over telephone | 2 |
| Send across a printed letter / mailer | 3 |
| Deal with the client only when he contacts you | 4 |
| Others SPECIFY | 5 |

49 SHOW EXTENT OF INFLUENCE CARD Can you tell me by looking at this card upto what extent do you influence the client's investment decision ?

- | | |
|---|---|
| Investor does not consult me at all before making a decision | 1 |
| Sometimes the investor consults me before making a decision | 2 |
| Most of the times the investor consults me before making a decision | 3 |
| Investor always consults me before making a decision | 4 |

50 What do you keep in mind about the client before advising him on any investment decision ? **PROBE THOROUGHLY AND RECORD VERBATIM**

51 SHOW TYPE OF SERVICES CARD Can you please list out all the different types of services that you render to your clients?

- | | |
|-----------------------------------|---|
| Provide applications forms | 1 |
| Collect and Deposit applications | 2 |
| Supply new investment information | 3 |
| Provide research and analysis | 4 |
| Do tax planning | 5 |
| Spot financing | 6 |
| Temporary loans | 7 |
| Portfolio management | 8 |
| Others SPECIFY | 9 |

52 Do you provide any receipt to your clients for his transactions ? **READ OUT ALL CHOICES**

- | | |
|--------------------------------|---|
| Yes – for all transactions | 1 |
| Yes - for some transactions | 2 |
| Yes – for some clients who ask | 3 |
| No | 4 |

A ONLY PRIM MKT
 B ONLY SEC MKT
 C BOTH PRIM & SEC MKT
 D PRIM MKT & F D
 E SEC MKT & F D
 F - ALL 3 i.e PRIM SEC FD

SECTION IV - PROFILE OF RESPONDENT

53 Since how long have you been working as a Broker ?

mths / years

54 What were your reasons for entering this profession ? **PROBE THOROUGHLY AND RECORD VERBATIM**

55 **SHOW LIKELIHOOD CARD** Please look at this card and tell me how likely are you to continue with this profession in the future ?

| | |
|-----------|---|
| Likely | 1 |
| Unlikely | 2 |
| Undecided | 3 |

56 What are your reasons for saying so? **PROBE THOROUGHLY AND RECORD VERBATIM**

57 Did you ever undergo any formal training to help you enhance your business?

| | | |
|-----|---|---|
| Yes | 1 | 1 |
| No | 2 | 2 |

58 Do you feel that formal training is required to help you enhance your business?

| | | |
|-----|---|---|
| Yes | 1 | 1 |
| No | 2 | 2 |

59 Do you feel that formal training is required to enter this business today?

| | | |
|-----|---|---|
| Yes | 1 | 1 |
| No | 2 | 2 |

60 How many workshops seminars or conferences other than investor conferences have you attended during the last year?

0 1 2 3 4 5 6 7 8 9 10 Don't know

61 **SHOW ESTABLISHMENT CARD** How would you describe your operations from this card ?

| | |
|---------------------|---|
| Proprietary concern | 1 |
| Partnership firm | 2 |
| Pvt Ltd Company | 3 |

A ONLY PRIM MKT
 B ONLY SEC MKT
 C BOTH PRIM & SEC MKT
 D PRIM MKT & F D
 E SEC MKT & F D
 F - ALL 3 i.e PRIM SEC FD

62 **SHOW RESEARCH CARD** How do you keep yourself updated on the market happenings product updates or new financial products?

- Read Annual report 1
- Read research reports 2
- Prepare your own research reports 3
- Listen to market buzz 4
- Listen to other brokers recommendations 5
- Read Newspapers/Magazine analysis 6
- Electronic information services/ databases 7
- Others **SPECIFY** 8
- 9

63 How many branches do you have ?

- In this city
- In other cities

64 How many employees do you have other than office boys and peons ?

- In this office
- In other offices

65 **SHOW EQUIPMENTS CARD** Can you look at this card and tell me which of the following office equipment you have installed in your office to help you in your work ?

- | | | |
|--------------------|---|----------------------------------|
| Telephones | 1 | Number of telephone lines |
| Fax | 2 | |
| Computers | 3 | |
| NSE / BSE Terminal | 4 | |
| Internet / e-mail | 5 | |

66 **SHOW OCCUPATION CARD** Could you please tell me your family background ?

- Agriculture 1
- Trading 2
- Finance/Broking 3
- Service 4
- Professional Finance 5
- Professional – Non – Finance 6
- Other Manufacturing Business **SPECIFY** 7
- Others **SPECIFY** 8
- 9

67 Can you please tell me your educational qualifications?

- Upto HSC / SSC 1
- HSC / SSC 2
- UnderGraduate 3
- Graduate 4
- Post Graduate 5

A - ONLY PRIM MKT
B - ONLY SEC MKT
C - BOTH PRIM & SEC MKT
D - PRIM MKT & F D
E - SEC MKT & F D
F - ALL 3 i.e PRIM SEC FD

68 Can you please tell me your age
yrs

NOTE DOWN RESPONDENT'S SEX

| | |
|--------|---|
| Male | 1 |
| Female | 2 |

**ATTACH VISITING
 CARD HERE**

Job No
 Job Name
 Coverage
 Fieldwork Dates
 Type of Questionnaire

FIRE
 RN1707
 ALL INDIA
 28/5-7/5/98
Sub-Broker

Name of Sub-Broker
 Name of Company
 Address

Interviewed by
 Scrutinised by
 Backchecked by

Date of Interview
 Date of Scrutiny
 Date of Backchecked

Good I am from **ResearchNet**, a reputed market research organisation based in Mumbai. We are conducting a study among Opinion Leaders like you in this city about investment habits and practices. May I ask you a few questions please?

Before we proceed further I would like to ask you about the language you feel most comfortable to converse in?

| | Comfortable in | Administered in |
|---------|----------------|-----------------|
| English | 1 | 1 |
| Others | 2 | 2 |
| | 3 | 3 |
| | 4 | 4 |

ADMINISTER THE QUESTIONNAIRE IN THE LANGUAGE THE RESPONDENT FEELS MOST COMFORTABLE IN, CODE AND PROCEED

1 **SHOW CATEGORY CARD** Can you look at this card and tell me which of these groups of profession you yourself belong to?

- Q 1**
- Primary market broker 1
 - Secondary market broker 2
 - Primary market Sub-Broker 3
 - Secondary market sub-broker 4
 - FD Broker 5
 - F D Agent 6
 - UTI / LIC / SBI Agent 7

MULTIPLE CODING POSSIBLE

2 Can you tell me the names of all financial instruments you used to deal in during the peak period of 1994-1995? **HAND OVER INSTRUMENTS CARD**

3 Can you tell me the names of all financial instruments that you deal in currently ?

4 You said that you deal in **MENTION RESPONSE FROM Q 3** Now if you were to break-up your annual business into various types of financial instruments then what would the proportion be?

| | Dealt with in 1994-95 | Deal in currently | Proportion out of 100% |
|--|-----------------------|-------------------|------------------------|
| Secondary Markets (shares and debentures) | 1 | 1 | |
| Primary Market—(shares debentures and bonds) | 2 | 2 | |
| UTI schemes | 3 | 3 | |
| Other Mutual Fund schemes | 4 | 4 | |
| Private Placements | 5 | 5 | |
| Fixed Deposits | 6 | 6 | |
| LIC schemes | 7 | 7 | |
| Tax Saving instruments like NSC/PPF etc | 8 | 8 | |
| Chit Funds | 9 | 9 | |
| Plantation Schemes | 10 | 10 | |
| Others SPECIFY | 11 | 11 | |

IF THE RESPONDENT DOES NOT DEAL WITH ANY OF THE INSTRUMENTS CODING 1- 6 HE DOES NOT QUALIFY FOR THE INTERVIEW

5 If you were to divide your total business on an average between retail business and institutional business then what proportion would you allocate to each of them?

| | |
|------------------------|--------------|
| Retail business | % out of 100 |
| Institutional business | % out of 100 |

RETAIL BUSINESS SHOULD BE ATLEAST 25 % ELSE TERMINATE INTERVIEW BUT KEEP SHEET

ASK Q6,Q7 & Q 8 IF SECC IDARY SUB-BROKER

6 What percentage of your retail business falls under the following categories?

| | |
|-------------------------|-------------|
| Square-off business | % |
| Delivery based business | % |
| | <hr/> 100 % |

7 **SHOW LADDER SCALE CARD** Please look at this card on which there is a ladder with ratings ranging from 5 to 0 I am going to read out some statements related to the delivery based secondary market business to you As I read out each statement please tell me how would you rate the statement A rating of 5 would indicate that the reason has most affected the delivery based business and a rating of 0 would indicate that the reason has

least affected the delivery base business **READ OUT EACH STATEMENT ONE AT A TIME**

**TAKE RATINGS ON ALL THE STATEMENTS
 START FROM STARRED STATEMENT**

| | Most | | | | | Least | |
|--|------|---|---|---|---|-------|----|
| Fear of bad delivery due to process | 5 | 4 | 3 | 2 | 1 | 0 | DK |
| Fear of bad delivery due to false /5 forged and stolen shares | 4 | 3 | 2 | 1 | 0 | DK | |
| Poor service from registrars & transfer agents | 5 | 4 | 3 | 2 | 1 | 0 | DK |
| Loss of investor confidence in financial intermediaries | 5 | 4 | 3 | 2 | 1 | 0 | DK |
| Loss of faith in corporates | 5 | 4 | 3 | 2 | 1 | 0 | DK |

8 Have you reduced your delivery based business due to a fear of bad deliveries?

| | |
|-----|---|
| Yes | 1 |
| No | 2 |

ASK ALL

9 What is the total number of **direct** individual clients that you have currently ?

10 Has the number of direct individual clients that you have currently increased, decreased or remained the same as compared to the peak period of 1994-95?

| | |
|-------------------|---|
| Increased | 1 |
| Decreased | 2 |
| Remained the same | 3 |

11 Why do you feel that your number of direct individual clients have **MENTION RESPONSE FROM Q 10 PROBE THOROUGHLY AND RECORD VERBATIM**

A ONLY PRIM MKT
B ONLY SEC MKT
C BOTH PRIM & SEC MKT
D PRIM MKT & F D
E SEC MKT & F D
F - ALL 3 i.e PRIM SEC FD

12 Do you deal with clients who do not have a reference ?

Yes

No

13 Has your **overall income** increased, decreased or remained the same as compared to the market peak? **REPLACE OVERALL INCOME AND ASK FOR PRIMARY BUSINESS, SECONDARY BUSINESS AS WELL AS FD**

| | Overall | Primary | Secondary | FD |
|-------------------|---------|---------|-----------|----|
| Increased | 1 | 1 | 1 | 1 |
| Decreased | 2 | 2 | 2 | 2 |
| Remained the same | 3 | 3 | 3 | 3 |

14 Why do you say your overall income has **MENTION RESPONSE FROM Q13?**
PROBE THOROUGHLY AND RECORD VERBATIM

SECTION I- GENERAL

ASK IF SECONDARY MARKET SUB- BROKER

- 1 Can you give me your best estimate of the number of **active** secondary market sub-brokers in the city in **1994-95** ? **READ OUT ALL THREE HEADS LISTED BELOW ONE AT A TIME**

In 94-95

Currently

In the future (2-3 years)

- 2 Why do you feel this number will _____ **(MENTION THE RESPONSE AS INCREASE / DECREASE / REMAIN THE SAME)** in the future as compared to currently? **PROBE THOROUGHLY AND RECORD VERBATIM**

ASK IF FD AGENT

- 3 Can you give me your best estimate of the number of **active** FD agents in the city?

In 96-97

Currently

In the future (2-3 years)

- 4 Why do you feel this number will _____ **(MENTION THE RESPONSE AS INCREASE / DECREASE / REMAIN THE SAME)** in the future as compared to currently? **PROBE THOROUGHLY AND RECORD VERBATIM**

ASK IF PRIMARY MARKET SUB-BROKERS

5 Can you give me your best estimate of the number of **active** primary market sub-brokers in the city ?

In 94-95

Currently

In the future (2-3 years)

6 Why do you feel this number will (MENTION THE RESPONSE AS INCREASE / DECREASE / REMAIN THE SAME) in the future as compared to currently? **PROBE THOROUGHLY AND RECORD VERBATIM**

SECTION II - BROKER – SUB BROKER RELATIONSHIP

ASK IF PRIMARY MARKETS / SUB-BROKERS OR FD AGENTS

ASK ALL QUESTIONS AS APPLICABLE

- 1 Are you associated with any of the following **READ OUT ? IF YES ASK** How many of
MENTION EACH CATEGORY each ?

| | Number |
|-----------------|--------|
| Primary broker | 1 |
| FD broker | 2 |
| Company / NBFC | 3 |
| Merchant banker | 4 |

- 2 Are you required to furnish verifications before you start working for a primary broker ?

- 3 Are you required to furnish verifications before you start working for a FD broker?

- 4 Are you required to furnish verifications before you start working for a company / NBFC?

- 5 Are you required to furnish verifications before you start working for a merchant banker?

| | Primary broker | FD broker | Company / NBFC | Merchant banker |
|-----|----------------|-----------|----------------|-----------------|
| Yes | 1 | 1 | 1 | 1 |
| No | 2 | 2 | 2 | 2 |

- 6 **SHOW VERIFICATIONS CARD** Can you please look at this card on which are listed various factors Can you tell me which of these were used by the Primary broker to evaluate you before appointing you?

- 7 Can you tell me which of these were used by the FD broker to evaluate you before appointing you?

- 8 Can you tell me which of these were used by the NBFC to evaluate you before appointing you?

9 Can you tell me which of these were used by the Merchant Banker to evaluate you before appointing you?

| | Primary broker | FD broker | Company / NBFC | Merchant banker |
|------------------------------|----------------|-----------|----------------|-----------------|
| Financials / Assets | | | | |
| Family background | | | | |
| Bank record | | | | |
| References | | | | |
| Past performance | | | | |
| Other details SPECIFY | | | | |

10 Is there any formal documentation drawn up between you and the following?

| | Yes | No |
|-----------------|-----|----|
| Primary broker | 1 | 2 |
| FD broker | 1 | 2 |
| Company / NBFC | 1 | 2 |
| Merchant banker | 1 | 2 |

11 Do you have any primary market sub-brokers working for you? **IF YES** How many?

12 Do you have any FD agents working for you? **IF YES** How many?

| | Yes | No | Number |
|--------------------|-----|----|--------|
| Primary sub-broker | 1 | 2 | |
| FD agent | 1 | 2 | |

13 What support services does your primary broker provide you with?

14 What support services does your FD broker provide you with?

| | Primary broker | FD broker |
|--|----------------|-----------|
| Infrastructure support (office space telephone etc) | 1 | 1 |
| Access to On-line trading | 2 | 2 |
| Market information | 3 | 3 |
| Company information | 4 | 4 |
| Financial backup / credit facility | 5 | 5 |
| Research Analysis | 6 | 6 |

Marketing support 7 7
 Others **PLEASE SPECIFY** 8 8

15 What is the type of help you feel is required from a broker in order to further your business ?

ASK ALL

16 Do you have any **client / agent** who regularly brings in additional business from other people?

Yes 1 **IF YES ASK** How many -
 No 2

17 What percentage of your retail trading business is contributed by direct individual clients and agent / client ?

| | | |
|---------------------------|-----------------------------|---|
| Direct individual clients | | % |
| Agent / client | <u> </u> | % |
| | 100 % | |

ASK IF SECONDARY MARKET SUB-BROKERS

18 Is there any requirement for the secondary market sub-broker to be registered with SEBI?

Yes 1 **GO TO Q 19**
 No 2 **GO TO Q 23**

19 Do you have a SEBI registration number ?

Yes 1 **GO TO Q 21**
 No 2 **GO TO Q 20**

20 Did you ever try to get registered with SEBI?

Yes 1 **GO TO Q 21**
 No 2 **GO TO Q 23**

21 Did you encounter any problems while trying to get registered with SEBI?

A ONLY PRIM MKT
 B ONLY SEC MKT
 C BOTH PRIM & SEC MKT
 D PRIM MKT & F D
 E SEC MKT & F D
 F - ALL 3 i.e PRIM SEC FD

Yes 1 GO TO Q 22
 No 2 GO TO Q 23

22 What were these problems? **PROBE THOROUGHLY AND RECORD VERBATIM**

23 Do you deal with more than one broker?

Yes 1 If YES, how many
 No 2

24 Which exchanges are these brokers members of ?

ASK THOSE WHO HAVE CODED NO TO Q 19 OR CODED YES FOR Q 19 & 23

25 Are you required to furnish verifications before you start working for the secondary market broker ?

Yes 1
 No 2 GO TO Q 27

26 **SHOW VERIFICATIONS CARD** Can you please look at this card on which are listed various factors and tell me which are the ones that an unregistered sub-broker is required to produce before he can start dealing with the broker?

Financials / Assets 1
 Family background 2
 Bank record 3
 References 4
 Past performance 5
 Other details **SPECIFY** 6

27 Is there any formal documentation drawn up between you and the broker?

Yes 1
 No 2

28 Do you enter into the same agreement with one / all your brokers irrespective of your registration status ?

Same 1 **GO TO Q 30**
 Different 2 **GO TO Q 29**

29 What are the major differences in these agreements ? **PROBE THOROUGHLY AND RECORD VERBATIM**

ASK IF SECONDARY MARKET SUB-BROKERS

30 Are you required to provide a Security Deposit to your Broker?

Yes 1
 No 2

31 On what factors does the amount of security deposit given by you depend on ?

| | Yes | No |
|--------------------------------|-----|----|
| Volume of business generated | 1 | 2 |
| Square-off or delivery | 1 | 2 |
| Registered versus unregistered | 1 | 2 |
| Others SPECIFY | 1 | 2 |

32 Has your security deposit ever been confiscated by a broker?

Yes 1 **GO TO Q 33**
 No 2 **GO TO Q 34**

33 Did you ever recover that security deposit ?

Yes 1
 No 2

A ONLY PRIM MKT
B ONLY SEC MKT
C BOTH PRIM & SEC MKT
D PRIM MKT & F D
E SEC MKT & F D
F - ALL 3 i.e PRIM SEC FD

34 What support services does your broker provide you with?

- | | |
|---|---|
| Infrastructure support (office space, telephone etc) | 1 |
| Access to On-line trading | 2 |
| Market information | 3 |
| Company information | 4 |
| Financial backup / credit facility | 5 |
| Research Analysis | 6 |
| Marketing support | 7 |
| Others PLEASE SPECIFY | 8 |

35 What is the type of help you feel is required from a broker in order to further your business ?

SECTION III - CLIENT RELATIONSHIP

SELECTION PROCEDURE

- 1 Do you seek any verification from a primary market client or check his background before you take on his business ?
- 2 Do you seek any verification from a FD client or check his background before you take on his business ?
- 3 Do you seek any verification from a secondary market client or check his background before you take on his business ?

| | Primary | FD | Secondary |
|-----|---------|----|-----------|
| Yes | 1 | 1 | 1 |
| No | 2 | 2 | 2 |

- 4 **SHOW VERIFICATIONS CARD** Can you please look at this card on which are listed various factors that you may use to evaluate a primary market client before taking on his business? Can you rank them in order of importance ?
- 5 Can you please look at this card on which are listed various factors that you may use to evaluate a FD client before taking on his business? Can you rank them in order of importance ?
- 6 Can you please look at this card on which are listed various factors that you may use to evaluate a secondary market client before taking on his business? Can you rank them in order of importance?

| | Primary | FD | Secondary |
|------------------------------|---------|----|-----------|
| Financials / Assets | | | |
| Family background | | | |
| Bank record | | | |
| References | | | |
| Other details SPECIFY | | | |

- 7 Do you canvass for new clients and new business in the primary market ?
- 8 Do you canvass for new clients and new business in the FD market?

9 Do you canvass for new clients and new business in the secondary market ?

| | Primary | FD | Secondary |
|-----|---------|----|-----------|
| Yes | 1 | 1 | 1 |
| No | 2 | 2 | 2 |

10 How do you canvass for new clients and new business in the primary market ?

11 How do you canvass for new clients and new business in the FD market?

12 How do you canvass for new clients and new business the secondary market ?

RELATIONSHIP WITH THE CLIENTS

13 Let s talk about the way you deal with your clientele Which of these phrases would best describe the interaction between you and your client ? **SHOW INTERACTION CARD**

- Meet the client to appraise him of new developments / investment opportunities 1
- Call the client advising investment over telephone 2
- Send across a printed letter / mailer 3
- Deal with the client only when he contacts you 4
- Others **SPECIFY** 5

14 **SHOW EXTENT OF INFLUENCE CARD** Can you tell me by looking at this card upto what extent do you influence the client's investment decision ?

- Investor does not consult me at all before making a decision 1
- Sometimes the investor consults me before making a decision 2
- Most of the times the investor consults me before making a decision 3
- Investor always consults me before making a decision 4

15 What do you keep in mind about the client before advising him on any investment decision ? **PROBE THOROUGHLY AND RECORD VERBATIM**

SERVICES

16 **SHOW TYPE OF SERVICES CARD** Can you please list out all the different types of services that you render to your clients ? **RECORD RESPONSE IN GRID BELOW**

- Provide applications forms 1
- Collect and Deposit applications 2
- Supply new investment information 3
- Provide research and analysis 4
- Do tax planning 5
- Spot financing 6
- Temporary loans 7
- Portfolio management 8
- Others **SPECI' Y** 9

17 Do you provide any receipt to your clients for his transactions ?

- Yes – for all transactions 1
- Yes - for some transactions 2
- Yes – for some clients who ask 3
- No 4

18 Have your clients ever come to you with any problems ?

- Yes 1 **GO TO Q 19**
- No 2 **GO TO NEXT SECTION**

19 How did you resolve these problems ?

SECTION IV - PROFILE OF RESPONDENT

1 Since how long have you been working as a primary sub-broker ?

mths / years

2 What were your reasons for entering this profession ? **PROBE THOROUGHLY AND RECORD VERBATIM**

3 Can you please tell me how likely are you to continue with this profession in the future?

| | |
|-----------|---|
| Likely | 3 |
| Unlikely | 2 |
| Undecided | 1 |

4 What are your reasons for saying so? **PROBE THOROUGHLY AND RECORD VERBATIM**

5 Since how long have you been working as a FD agent ?

mths / years

6 What were your reasons for entering this profession ? **PROBE THOROUGHLY AND RECORD VERBATIM**

7 Can you please tell me how likely are you to continue with this profession in the future?

| | |
|-----------|---|
| Likely | 3 |
| Unlikely | 2 |
| Undecided | 1 |

8 What are your reasons for saying so? **PROBE THOROUGHLY AND RECORD VERBATIM**

9 Since how long have you been working as a secondary sub-broker?

mths / years

10 What were your reasons for entering this profession ?

11 Can you please tell me how likely are you to continue with this profession in the future?

| | |
|-----------|---|
| Likely | 3 |
| Unlikely | 2 |
| Undecided | 1 |

12 What are your reasons for saying so ? **PROBE THOROUGHLY AND RECORD VERBATIM**

13 Did you ever undergo any formal training to help you enhance your business?

Yes 1
 No 2

14 Do you feel that formal training is required to help you enhance your business?

Yes 1
 No 2

15 Do you feel that formal training is required to enter this business today?

Yes 1
 No 2

16 How many workshops, seminars or conferences, other than investor conferences, have you attended during the last year?

0 1 2 3 4 5 6 7 8 9 DK

17 **SHOW RESEARCH CARD** How do you keep yourself updated on the market happenings, product updates or new financial products?

| | | | |
|--|---|-----------------------|---|
| Read Annual report | 1 | Read research reports | 2 |
| Prepare your own research reports | 3 | Listen to market buzz | 4 |
| Listen to brokers recommendations | 5 | | |
| Read Newspapers/Magazine analysis | 6 | | |
| Electronic information services/ databases | 7 | | |
| Others SPECIFY | | | |

18 **SHOW ESTABLISHMENT CARD** How would you describe your operations from this card ?

Proprietary concern 1
 Partnership firm 2
 Pvt Ltd Company 3

19 Do you operate from your office your broker's office or from home ?

My office 1
 My broker s office 2

Home

3

20 How many employees do you have other than office boys and peons ?

21 **SHOW EQUIPMENTS CARD** Can you look at this card and tell me which of the following office equipment you have installed in your office to help you in your work ?

| | | |
|--------------------|---|----------------------------------|
| Telephones | 1 | Number of telephone lines |
| Fax | 2 | |
| Computers | 3 | |
| NSE / BSE Terminal | 4 | |
| Internet / e-mail | 5 | |

22 **SHOW OCCUPATION CARD** Could you please tell me your family background ?

| | |
|---|---|
| Agriculture | 1 |
| Trading | 2 |
| Finance/Broking | 3 |
| Service | 4 |
| Professional - Finance | 5 |
| Professional – Non – Finance | 6 |
| Other Manufacturing Business SPECIFY | 7 |
| Others SPECIFY | 8 |
| | 9 |

23 What proportion of all your income comes from the finance/broking business?

| | |
|----------------|---|
| All the income | 1 |
| 75% - 99% | 2 |
| 50% - 74% | 3 |
| 25% - 49% | 4 |
| Less than 25% | 5 |

24 **IF LESS THAN 100% INCOME FROM BROKING BUSINESS**

What are your other sources of income ?

A ONLY PRIM MKT
B ONLY SEC MKT
C BOTH PRIM & SEC MKT
D PRIM MKT & F D
E SEC MKT & F D
F ALL 3 I.e PRIM SEC FD

25 Can you please tell me your educational qualifications?

| | |
|----------------------------------|---|
| Upto Class 11 / 12 | 1 |
| Passed class 11 / 12 | 2 |
| Undergraduate | 3 |
| Graduate | 4 |
| Post Graduate | 5 |
| Professional [CA ICWA,MBA etc] | 6 |

26 Can you please tell me your age ?

yrs

NOTE DOWN RESPONDENT'S SEX

| | |
|--------|---|
| Male | 1 |
| Female | 2 |

Annex B – Research Limitations

The findings of the RFI survey provide valuable insights on specific issues relating to the structure role and practices adopted by select segments of financial intermediaries catering to the needs of the retail investors active in the Indian capital markets

Although initially envisaged as covering retail investors as well the survey focussed only on certain specific segments of the retail financial intermediaries. All responses are therefore representative of these segments and reflect the intermediaries' perception of the relevant issues. A separate investor survey is suggested to gain a comprehensive understanding of these issues particularly those related to investor needs and relationships. This being first survey of its kind it may be used as a baseline for future research in this direction as it raises issues for discussion and further inquiry. A larger, broad-spectrum survey with a wider spread in terms of respondents across town types (beyond stock exchange towns) may be necessary for an in-depth and more representative exploration and appreciation of the issues at hand.

Following is a listing of specific limitations of the current survey

- The survey was restricted to the following segments
 - Brokers – Primary and Secondary
 - Sub-Brokers – Primary Secondary and Fixed Deposit Agents
The findings therefore relate primarily to these categories of the financial intermediaries
- The focus of the survey was on Retail Intermediaries (with more than 25% of their business being generated from the Retail Segment) and as such Institutional Brokers are not represented in the Survey Findings
- Large Primary Brokers and Merchant Banks were not included in the Sample Plan. Overall therefore the information relating to Primary Brokers is likely to have a bias towards the smaller PMBs
- The surveys were conducted in the offices of the respondents and hence there is a higher possibility of ownership of offices being reported in the survey
- Though the sample plan was designed to provide coverage across the regions there was a deliberate focus on the four Mega-metros and Stock Exchange towns. Given the large number of towns with a population above 50 000 the survey findings are likely to be biased in favour of the stock exchange towns. In particular estimates of RFIs in the different categories which have used assumptions for Class I and II towns (where stock exchanges are not present) may be considered only as indicative and not conclusive
- The original sample plan envisaged coverage of 39 towns across the country over a two-week period however the final coverage achieved was of 35 towns. The

number of responses obtained from Class II towns was very limited, and as such, we have not been able to present significant data on this class of towns. Also, a total of 1 349 contacts were made to arrive at the final number of 1198 interviews

- The number of Primary Market Brokers met was limited on account of the depressed market conditions in the segment. A number of operators in this market segment have withdrawn from the market
- As reliable estimates of universe size of Sub-brokers are not available, the sample selected may not be fully representative of the universe, particularly because of the lower representation of the Class I and II towns in the sample. As such, the responses, particularly for the sub-brokers, may be considered more representative of the stock exchange towns
- Sampling frame for PMBs, PMSBs, SMSBs and FDAs was arrived at by drawing from prior experience of the field research agency, and on the basis of a quick listing of intermediaries prepared by city representatives in meetings with a few intermediaries. These lists are unlikely to be exhaustive. Additionally, there were a number of intermediaries who had reportedly stopped operating in these markets. As such, the sampling frame used for the survey was limited
- The survey was conducted during a period when capital markets have been depressed. The situation is likely to be different when the markets are more buoyant
- We have attempted to present data primarily where the minimum number of responses is more than 30. As such, in many situations (particularly for Regional differences, etc.) we have not been able to present much data
- There may be errors in the findings to the extent there is a significant number of non-responses to a number of questions, particularly on issues relating to Intermediary Relationships, Registration, etc. These may be on account of the "sensitivity" of some of the issues. Again, some of the responses may reflect the real situation only to a limited extent, as respondents may be wary of providing information on these sensitive issues
- As there is no standard criteria to classify RFIs, we used the respondent's perception of his or her own role as the classification criteria. As such, there may be errors on account of improper classification by respondents
- In terms of analysing open-ended responses, we have reported only the significant responses
- While calculating the mean for different responses, outliers were not considered

Annex C – List of References

Sources

- RBI's Report on Currency and Finance 1996-97,
- Personal Investment and Tax Planning (N J Yaraswy),
- Banking Statistics – Quarterly Handout (September 1997)
- Studies carried out by SCMRD
 - Indian Shareowners
 - India's Stock Market Crisis
 - Mutual Funds and Asset Preference
 - Shareowners Geographic Distribution
- Agreement between a broker and a sub-broker
- Reports from the FIRE team on FIRE project
- Prime Database
- All India Investment and Debt Survey
- Central Statistical Organisation Publications
- Centre for Monitoring Indian Economy reports on capital markets
- Planning Commission Reports
- Media Clippings of past one year

Discussions with RBI officials UTI Institute of Capital Markets experts, NSE officials,
Merchant Bankers stock brokers, Sub-brokers, etc

Annex D – Data Tables

| | |
|----------|--|
| Table D1 | Household savings over the years |
| Table D2 | Household savings in financial assets over the years |
| Table D3 | Top 50 banking centres ranked on deposits |
| Table D4 | Top 100 primary market investment centres |
| Table D5 | Estimates of active PMBs |
| Table D6 | Estimates of active PMSBs |
| Table D7 | Estimates of active SMBs |
| Table D8 | Estimates of active SMSBs |
| Table D9 | Estimates of active FDAs |

Table D1

Household Savings over the years
 (At Current Prices)

| | | (Rupees crore) | | | | |
|----------|---|----------------|-----------------|-----------------|-----------------|-----------|
| | Item | 1980-81 | 1990-91P | 1994-95P | 1995-96* | 1996-97** |
| 1 | Household Sector | 21 847 | 1 09 622 | 1 82 594 | 2 10 173 | - |
| | (a) | 16 1 | 20 5 | 19 1 | 19 1 | |
| | <i>Of which</i> | | | | | |
| i) | Financial Assets (Net) | 8 609 | 49 699 | 1 09 094 | 92 799 | 1 33 351 |
| | (a) | 6 3 | 9 3 | 11 4 | 8 4 | 10 6 |
| ii) | Physical Assets | 13 238 | 59 923 | 73 500 | 1 17 374 | -- |
| | (a) | 3 4 | 1 0 | 7 7 | 10 7 | |
| 2 | Public Sector | 4 654 | 5 436 | 17 240 | 21 107 | -- |
| | (a) | 3 4 | 1 | 1 8 | 1 9 | |
| 3 | Private Corporate Sector | 2 284 | 14 940 | 37 551 | 45 336 | -- |
| | (a) | 1 7 | 2 8 | 3 9 | 4 1 | |
| 4 | Gross Domestic Saving (1+2+3) | 28,785 | 1,29,998 | 2,37,385 | 2,76,616 | -- |
| | (a) | 21 2 | 24 3 | 24 9 | 25 2 | |
| 5 | Net Inflow of Foreign Resources | 2 934 | 17 959 | 9 843 | 19 493 | 14 669 |
| | (a) | 2 2 | 3 4 | 1 0 | 1 8 | 1 2 |
| 6 | Aggregate Investment (4+5) | 31,719 | 1,47,957 | 2,47,228 | 2,96,109 | -- |
| | (a) | 23 3 | 27 6 | 25 9 | 27 0 | |
| | Gross Domestic Product (GDP) at Current Market Prices | 1 36 013 | 5 35 534 | 9 53 680 | 10 98 576 | 12 62 620 |

(a) Percentage to GDP at current market prices

P Provisional

Tentative Estimates

CSO estimates

Source RBI's report on Currency and Finance

Table D2

SAVINGS OF THE HOUSEHOLD SECTOR IN FINANCIAL ASSETS

(At Current Prices)

(Rupees crore)

| | Item | 1980-81 | 1990 91P | 1994 95P | 1995 96P | 1996 97S |
|----------|---|---------------|---------------|-----------------|-----------------|-----------------|
| A | Savings (Gross) of the Household Sector in Financial Assets (1 to 9) | 12 117 | 58 967 | 1 40 753 | 1 20 058 | 1 52 951 |
| | (%) | 8.9 | 11.0 | 14.8 | 10.9 | 12.1 |
| 1 | Currency | 1 625 | 6 251 | 15 916 | 16 525 | 13 553 |
| | (a) | 1.2 | 1.2 | 1.7 | 1.5 | 1.1 |
| | (b) | 13.4 | 10.6 | 11.3 | 13.8 | 8.9 |
| 2 | Bank Deposits# | 5 550 | 18 777 | 53 200 | 34 993 | 58 364 |
| | (a) | 4.1 | 3.5 | 5.6 | 3.2 | 4.6 |
| | (b) | 45.8 | 31.8 | 37.8 | 29.1 | 36.2 |
| 3 | Non banking Deposits | 378 | 1 286 | 11 547 | 13 198 | 22 377 |
| | (a) | 0.3 | 0.2 | 1.2 | 1.2 | 1.8 |
| | (b) | 3.1 | 2.2 | 8.2 | 11.0 | 14.6 |
| 4 | Life Insurance Fund | 915 | 5 599 | 11 370 | 13 889 | 15 692 |
| | (a) | 0.7 | 1.0 | 1.2 | 1.3 | 1.2 |
| | (b) | 7.6 | 9.5 | 8.1 | 11.6 | 10.3 |
| 5 | Provident Fund and Pension Fund | 2 122 | 11 155 | 21 691 | 23 563 | 24 373 |
| | (a) | 1.6 | 2.1 | 2.3 | 2.1 | 1.9 |
| | (b) | 17.5 | 18.9 | 15.4 | 19.6 | 15.9 |
| 6 | Claims on Government+ | 712 | 7 942 | 13 360 | 9 533 | 11 987 |
| | (a) | 0.5 | 1.5 | 1.4 | 0.9 | 0.9 |
| | (b) | 5.9 | 13.5 | 9.5 | 7.9 | 7.8 |
| 7 | Shares and Debentures ++ | 412 | 4 972 | 11 611 | 7 795 | 5 859 |
| | (a) | 0.3 | 0.9 | 1.2 | 0.7 | 0.5 |
| | (b) | 3.4 | 8.4 | 8.2 | 6.5 | 3.8 |
| 8 | Units of Unit Trust of India | 31 | 3 438 | 3 908 | 262 | 446 |
| | (a) | - | 0.6 | 0.4 | 0.0 | 0.0 |
| | (b) | 0.3 | 5.8 | 2.8 | 0.2 | 0.3 |
| 9 | Trade Debt (Net) | 373 | -453 | 1 850 | 300 | 300 |
| | (a) | 0.3 | -0.1 | -0.2 | 0.0 | 0.0 |
| | (b) | 3.1 | -0.8 | 1.3 | 0.2 | 0.2 |
| B | Financial Liabilities of the Household Sector (1 to 4) | 3 508 | 9 267 | 31 659 | 27 258 | 19 600 |
| | (a) | 2.6 | 1.7 | 3.3 | 2.5 | 1.6 |
| 1 | Bank Advances | 3 093 | 7 429 | 28 508 | 24 312 | 16 643 |
| | (a) | 2.3 | 1.4 | 3.0 | 2.2 | 1.3 |
| | (b) | 88.2 | 80.2 | 90.0 | 89.2 | 84.9 |
| 2 | Loans and advances from Other Financial Institutions | 182 | 1 154 | 2 409 | 2 207 | 2 207 |
| | (a) | 0.1 | 0.2 | 0.3 | 0.2 | 0.2 |
| | (b) | 5.2 | 12.5 | 7.6 | 8.1 | 11.3 |
| 3 | Loans and Advances from Government | 151 | 611 | 417 | 397 | 389 |
| | (a) | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| | (b) | 4.3 | 6.6 | 1.3 | 1.5 | 2.0 |
| 4 | Loans and Advances from Co operative Non credit Societies | 82 | 73 | 362 | 342 | 360 |
| | (a) | 0.1 | - | - | - | - |
| | (b) | 2.3 | 0.8 | 1.0 | 1.3 | 1.8 |
| C | Savings (Net) of the Household Sector in Financial Assets (A - B) | 8 609 | 49 699 | 1 09 094 | 92 799 | 1 33 351 |
| | (a) | 6.3 | 9.3 | 11.4 | 8.4 | 10.6 |

(a) Percentages to Gross Domestic Product at current market prices

(b) Percentages to Gross Financial Assets

Includes deposits with Co operative non credit societies

Includes State/ Central Government and postal insurance fund

Includes compulsory deposits

Includes investment in shares and debentures of credit co operative societies and public sector bonds

S Tentative Estimates

Source: RBI's report on Currency and Finance

Table D3

Top 50 banking centres ranked on deposits

| STATE | Rank | Centre Name | No of Reporting Offices | Amount (Rs Lakhs) | Annual Growth |
|--------------|------|------------------|-------------------------|----------------------|---------------|
| | | DEPOSITS | | | |
| MAH | 1 | Mumbai | 1 331 | 8 094 276 | 12 6% |
| DE | 2 | Delhi | 1 184 | 5 232 538 | 17 7% |
| WB | 3 | Calcutta | 953 | 2 185 516 | 18 1% |
| TN | 4 | Chennai | 704 | 1 440 344 | 14 4% |
| KAR | 5 | Bangalore | 655 | 1 207 935 | 16 8% |
| AP | 6 | Hyderabad | 471 | 914 341 | 23 0% |
| GUJ | 7 | Ahmedabad | 459 | 606 025 | 7 0% |
| MAH | 8 | Pune | 292 | 531 741 | 11 6% |
| UP | 9 | Lucknow | 198 | 507 293 | 33 9% |
| PUN | 10 | Chandigarh | 136 | 410 426 | 27 9% |
| UP | 11 | Kanpur | 283 | 352 460 | 20 0% |
| GUJ | 12 | Vadodara | 168 | 336 009 | 14 5% |
| RAJ | 13 | Jaipur | 206 | 312 590 | 17 4% |
| PUN | 14 | Jalandhar | 136 | 291 120 | 18 6% |
| BIH | 15 | Patna | 150 | 284 145 | 16 0% |
| KER | 16 | Cochi | 209 | 281 105 | 27 2% |
| PUN | 17 | Ludhiana | 174 | 268 022 | 17 3% |
| KER | 18 | Thiruvananthapur | 141 | 228 887 | 18 6% |
| MAH | 19 | Nagpur | 157 | 227 702 | 30 7% |
| MP | 20 | Indore | 145 | 219 546 | 21 7% |
| PUN | 21 | Amritsar | 142 | 210 041 | 20 4% |
| GUJ | 22 | Surat | 153 | 209 148 | 14 8% |
| TN | 23 | Coimbatore | 163 | 205 004 | 15 5% |
| MP | 24 | Bhopal | 135 | 199 327 | 9 2% |
| UP | 25 | Dehradun | 70 | 193 433 | 11 2% |
| NE | 26 | Guwahati | 86 | 165 316 | 30 6% |
| AP | 27 | Vishakhapatnam | 104 | 165 250 | 26 1% |
| UP | 28 | Varanasi | 123 | 160 985 | 18 0% |
| UP | 29 | Allahabad | 106 | 158 809 | 20 4% |
| OR | 30 | Bhubaneshwar | 79 | 154 001 | 42 0% |
| KAR | 31 | Mangalore | 138 | 151 440 | 23 4% |
| UP | 32 | Agra | 121 | 150 803 | 22 2% |
| JK | 33 | Jammu | 68 | 140 864 | 25 4% |
| JK | 34 | Srinagar | 83 | 133 172 | 23 5% |
| UP | 35 | Ghaziabad | 80 | 133 054 | 31 4% |
| MAH | 36 | Thane | 61 | 128 791 | 15 1% |
| BIH | 37 | Jamshedpur | 62 | 128 690 | 19 9% |
| MAH | 38 | Kalyan | 65 | 125 325 | 24 2% |
| GUJ | 39 | Rajkot | 89 | 123 534 | 4 5% |
| UP | 40 | Meerut | 93 | 120 558 | 17 6% |
| HAR | 41 | Faridabad | 59 | 119 408 | 16 2% |
| PUN | 42 | Patiala | 79 | 119 173 | 23 3% |
| MP | 43 | Jabalpur | 83 | 114 800 | 30 1% |
| KAR | 44 | Mysore | 101 | 112 800 | 11 9% |
| BIH | 45 | Ranchi | 74 | 111 414 | 22 4% |
| TN | 46 | Madurai | 112 | 110 227 | 19 7% |
| WB | 47 | Howrah | 68 | 101 474 | 22 0% |
| MP | 48 | Gwalior | 64 | 92 033 | 20 2% |
| GOA | 49 | Panaji | 40 | 90 546 | 21 3% |
| TN | 50 | Tiruchirapalli | 90 | 88 867 | 20 4% |
| TOTAL | | | | 28,150,308 | |

| PRIME DATABASE CITYWISE RESPONSE | | | | | Table D4 | |
|----------------------------------|------------|------|------|-------------------|----------------------|-------------|
| STATE | STOCK EXCH | ZONE | RANK | CITY | 1996 97 % of tota | Cumulative% |
| MAH | Y | W | 1 | Mumbai | 39 40 | 39 40 |
| DEL | Y | N | 2 | New Delhi / Delhi | 12 77 | 52 17 |
| WB | Y | E | 3 | Calcutta | 7 61 | 59 78 |
| GUJ | Y | W | 4 | Ahmedabad | 6 44 | 66 22 |
| TN | Y | S | 5 | Chennai | 3 12 | 69 34 |
| AP | Y | S | 6 | Hyderabad | 2 55 | 71 89 |
| KAR | Y | S | 7 | Bangalore | 2 36 | 74 25 |
| HAR | N | N | 8 | Faridabad | 1 34 | 75 59 |
| MAH | Y | W | 9 | Pune | 1 27 | 76 86 |
| UP | N | N | 10 | Lucknow | 1 24 | 78 10 |
| RAJ | Y | W | 11 | Jaipur | 1 05 | 79 15 |
| GUJ | Y | W | 12 | Vadodara | 1 03 | 80 18 |
| MP | Y | N | 13 | Indore | 0 96 | 81 14 |
| GUJ | N | W | 14 | Surat | 0 78 | 81 92 |
| BIH | Y | E | 15 | Patna | 0 76 | 82 68 |
| UP | Y | N | 16 | Kanpur | 0 67 | 83 35 |
| MAH | N | W | 17 | Thane | 0 54 | 83 89 |
| PUN | Y | N | 18 | Ludhiana | 0 49 | 84 38 |
| GUJ | Y | W | 19 | Rajkot | 0 43 | 84 81 |
| UP | N | N | 20 | Varanasi | 0 42 | 85 23 |
| HAR | N | N | 21 | Gurgaon | 0 41 | 85 64 |
| OR | Y | E | 22 | Bhubaneswar | 0 40 | 86 04 |
| NE | Y | E | 23 | Guwahati | 0 40 | 86 44 |
| MAH | N | W | 24 | Nagpur | 0 40 | 86 84 |
| PUN | N | N | 25 | Chandigarh | 0 39 | 87 23 |
| UP | N | N | 26 | Allahabad | 0 28 | 87 51 |
| UP | N | N | 27 | Meerut | 0 28 | 87 79 |
| MP | N | N | 28 | Bhopal | 0 27 | 88 06 |
| BIH | N | E | 29 | Jamshedpur | 0 25 | 88 31 |
| HP | N | N | 30 | Shimla | 0 25 | 88 56 |
| KER | Y | S | 31 | Cochin/Ernakulam | 0 24 | 88 80 |
| AP | N | S | 32 | Vijayawada | 0 23 | 89 03 |
| AP | N | S | 33 | Visakhapatnam | 0 22 | 89 25 |
| BIH | N | E | 34 | Dhanbad | 0 22 | 89 47 |
| TN | Y | S | 35 | Coimbatore | 0 21 | 89 68 |
| MAH | N | W | 36 | Nasik | 0 20 | 89 88 |
| BIH | N | E | 37 | Ranchi | 0 19 | 90 07 |
| PUN | N | N | 38 | Amritsar | 0 19 | 90 26 |
| GUJ | N | W | 39 | Bhavnagar | 0 17 | 90 43 |
| KER | N | S | 40 | Trivandrum | 0 17 | 90 60 |
| WB | N | E | 41 | Siliguri | 0 17 | 90 77 |
| UP | N | N | 42 | Gorakhpur | 0 17 | 90 94 |
| RAJ | N | W | 43 | Udaipur | 0 17 | 91 11 |
| UP | N | N | 44 | Agra | 0 17 | 91 28 |
| PUN | N | N | 45 | Jullundar | 0 15 | 91 43 |
| GOA | N | W | 46 | Panaji | 0 15 | 91 58 |
| MAH | N | W | 47 | Solapur | 0 15 | 91 73 |
| GUJ | N | W | 48 | Anand | 0 15 | 91 88 |
| MP | N | N | 49 | Jabalpur | 0 14 | 92 02 |
| UP | N | N | 50 | Ghaziabad | 0 14 | 92 16 |
| MAH | N | W | 51 | Kolhapur | 0 13 | 92 29 |

| STATE | STOCK EXCH | ZONE | RANK | CITY | 1996-97 | |
|-------|------------|------|------|-------------|-----------|-------------|
| | | | | | % of tota | Cumulative% |
| WB | N | E | 52 | Haldia | 0 13 | 92 42 |
| UP | N | N | 53 | Bareilly | 0 12 | 92 54 |
| GUJ | N | W | 54 | Navsari | 0 12 | 92 66 |
| RAJ | N | W | 55 | Kota | 0 12 | 92 78 |
| MP | N | N | 56 | Gwalior | 0 12 | 92 90 |
| MP | N | N | 57 | Raipur | 0 12 | 93 02 |
| RAJ | N | W | 58 | Jodhpur | 0 11 | 93 13 |
| WB | N | E | 59 | Kharagpur | 0 11 | 93 24 |
| PUN | N | N | 60 | Patiala | 0 11 | 93 35 |
| UP | N | N | 61 | Dehradun | 0 11 | 93 46 |
| GUJ | N | W | 62 | Jamnagar | 0 11 | 93 57 |
| JK | N | N | 63 | Jammu | 0 10 | 93 67 |
| KAR | N | S | 64 | Hubli | 0 10 | 93 77 |
| MP | N | N | 65 | Bhilai | 0 10 | 93 87 |
| MAH | N | W | 66 | Sangli | 0 10 | 93 97 |
| HAR | N | N | 67 | Karnal | 0 09 | 94 06 |
| GUJ | N | W | 68 | Mehsana | 0 09 | 94 15 |
| UP | N | N | 69 | Moradabad | 0 09 | 94 24 |
| GUJ | N | W | 70 | Bharuch | 0 08 | 94 32 |
| OR | N | E | 71 | Cuttack | 0 08 | 94 40 |
| GUJ | N | W | 72 | Vapi | 0 08 | 94 48 |
| MAH | N | W | 73 | Jalgaon | 0 08 | 94 56 |
| RAJ | N | W | 74 | Ajmer | 0 08 | 94 64 |
| HAR | N | N | 75 | Ambala | 0 08 | 94 72 |
| BIH | N | E | 76 | Arrah | 0 08 | 94 80 |
| TN | N | S | 77 | Madurai | 0 08 | 94 88 |
| GUJ | N | W | 78 | Valsad | 0 07 | 94 95 |
| GUJ | N | W | 79 | Junagarh | 0 07 | 95 02 |
| KAR | N | S | 80 | Mysore | 0 07 | 95 09 |
| BIH | N | E | 81 | Bokaro | 0 07 | 95 16 |
| GUJ | N | W | 82 | Nadiad | 0 07 | 95 23 |
| | N | | 83 | Misc | 0 07 | 95 30 |
| MAH | N | W | 84 | Aurangabad | 0 06 | 95 36 |
| GOA | N | W | 85 | Margao | 0 06 | 95 42 |
| MAH | N | W | 86 | Satara | 0 06 | 95 48 |
| KAR | N | S | 87 | Belgaum | 0 06 | 95 54 |
| KAR | Y | S | 88 | Mangalore | 0 06 | 95 60 |
| MAH | N | W | 89 | Ahmednagar | 0 06 | 95 66 |
| OR | N | E | 90 | Rourkela | 0 06 | 95 72 |
| TN | N | S | 91 | Erode | 0 05 | 95 77 |
| GUJ | N | W | 92 | Gandhinagar | 0 05 | 95 82 |
| TN | N | S | 93 | Trichy | 0 05 | 95 87 |
| MAH | N | W | 94 | Chandrapur | 0 05 | 95 92 |
| MAH | N | W | 95 | Ratnagiri | 0 05 | 95 97 |
| UP | N | N | 96 | Aligarh | 0 05 | 96 02 |
| BIH | N | E | 97 | Unjha | 0 05 | 96 07 |
| HAR | N | N | 98 | Hissar | 0 05 | 96 12 |
| WB | N | E | 99 | Durgapur | 0 05 | 96 17 |
| TN | N | S | 100 | Salem | 0 05 | 96 22 |

Table D5

Estimates of Active PMBs

| City | Peak | Current | % Change |
|--------------|--------------|--------------|-------------|
| Mumbai | 283 | 285 | 1% |
| Pune | 140 | 47 | -66% |
| Ahmedabad | 300 | 200 | 33% |
| Baroda | 236 | 110 | -53% |
| Indore | 138 | 10 | -93% |
| Delhi | 158 | 84 | -47% |
| Ludhiana | 38 | 4 | -89% |
| Calcutta | 51 | 23 | 55% |
| Bhubaneshwar | 100 | 31 | -69% |
| Guwahati | 120 | 9 | -93% |
| Patna | 250 | 40 | 84% |
| Chennai | 175 | 60 | -66% |
| Cochin | 50 | 7 | -86% |
| Bangalore | 57 | 39 | -32% |
| Hyderabad | 175 | 70 | -60% |
| Mangalore | 31 | 6 | -81% |
| Coimbatore | 58 | 16 | -72% |
| Total | 2,360 | 1,041 | -56% |

Table D6

Estimates of Active PMSBs

| | City | Peak | Current | % Change |
|------|--------------|---------------|--------------|-------------|
| SEMM | Mumbai | 660 | 525 | -20% |
| SEMM | Delhi | 288 | 229 | -20% |
| SEMM | Calcutta | 582 | 133 | -77% |
| SEMM | Chennai | 894 | 185 | -79% |
| SE | Pune | 1 033 | 483 | -53% |
| SE | Baroda | 137 | 166 | 21% |
| SE | Indore | 187 | 76 | -59% |
| SE | Ludhiana | 516 | 28 | -95% |
| SE | Jaipur | 1 172 | 36 | -97% |
| SE | Bhubaneshwar | 129 | 140 | 9% |
| SE | Guwahati | 11 | 11 | 0% |
| SE | Patna | 403 | 119 | -70% |
| SE | Cochin | 4 023 | 766 | -81% |
| SE | Bangalore | 850 | 81 | -90% |
| SE | Hyderabad | 406 | 26 | -94% |
| SE | Coimbatore | 150 | 68 | 55% |
| M | Bhopal | 41 | 17 | -59% |
| C1 | Shimla | 24 | 14 | -42% |
| C1 | Vijayawada | 347 | 14 | -96% |
| C1 | Chandigarh | 367 | 100 | -73% |
| | Total | 12,220 | 3,217 | -74% |

| | Comments | No of towns | Total | Level of Confidence |
|------|--|-------------|--------------|---------------------|
| SEMM | As estimated above | 4 | 1 072 | Medium - High |
| SE | As estimated above | 12 | 2 000 | Medium - High |
| | For remaining 5 SE towns assuming an average of 100 PMSBs/town | 5 | 500 | Medium |
| M/C1 | For other towns with a pop > 100 000 average assumed to be 20 (Range of 15 - 25) | 288 | 5 760 | Low |
| | | | 9,332 | |

Table D7

Estimates of Active SMBs

| | Peak | Current | % change | Future | Expected change | SE Members 1997 | % Difference with current |
|-------------|--------------|--------------|--------------|--------------|-----------------|-----------------|---------------------------|
| Mumbai | 480 | 463 | 3.5% | 353 | 23.8% | 582 | -20.4% |
| Pune | 139 | 67 | 51.8% | 67 | 0.0% | 187 | 64.2% |
| Ahmedabad | 290 | 204 | 29.7% | 166 | 18.6% | 302 | 32.5% |
| Baroda | 320 | 176 | 45.0% | 192 | 9.1% | 307 | -42.7% |
| Indore | 197 | 26 | 86.8% | 26 | 0.0% | 184 | 85.9% |
| Delhi | 364 | 302 | 17.0% | 277 | 8.3% | 375 | 19.5% |
| Kanpur | 231 | 164 | 29.0% | 102 | 37.8% | 568 | -71.1% |
| Ludhiana | 170 | 85 | 50.0% | 61 | 28.2% | 278 | 69.4% |
| Calcutta | 843 | 682 | 19.1% | 511 | 25.1% | 697 | 2.2% |
| Bhubaneswar | 88 | 31 | 64.8% | 39 | 25.8% | 215 | -85.6% |
| Guwahati | 84 | 23 | 72.6% | 27 | 17.4% | 199 | -88.4% |
| Patna | 224 | 132 | 41.1% | 192 | 45.5% | 193 | 31.6% |
| Chennai | 285 | 90 | 68.4% | 76 | 15.6% | 168 | -46.4% |
| Cochin | 315 | 70 | 77.8% | 75 | 7.1% | 447 | 84.3% |
| Bangalore | 118 | 114 | 3.4% | 145 | 27.2% | 231 | 50.6% |
| Hyderabad | 144 | 146 | 1.4% | 128 | 12.3% | 285 | -48.8% |
| Mangalore | 78 | 25 | 67.9% | 22 | 12.0% | 151 | 83.4% |
| Coimbatore | 230 | 132 | 42.6% | 135 | 2.3% | 195 | -32.3% |
| | 4 600 | 2 932 | 36.3% | 2 594 | 11.5% | 5 564 | -47.3% |

Note: The above estimates take into account 18 Stock Exchange towns. Taking into account the remaining stock exchange towns, the number of SMBs reported as members of those SEs, the number of active SMBs in similar sized towns in their respective regions, we estimate the overall number of active SMBs across India to be in the range of 3 500. This estimate also includes a number of SMBs working with the NSE in non Stock Exchange towns.

Table D8

Estimates of Active SMSBs

| | | Peak | Current | % Change |
|------|--------------|---------------|----------------|-----------------|
| SEMM | Mumbai | 9 568 | 6 224 | 35% |
| SEMM | Delhi | 694 | 446 | 36% |
| SEMM | Calcutta | 1 261 | 590 | 53% |
| SEMM | Chennai | 490 | 127 | 74% |
| SE | Pune | 942 | 534 | 43% |
| SE | Ahmedabad | 3 906 | 1 613 | 59% |
| SE | Baroda | 681 | 422 | 38% |
| SE | Indore | 300 | 123 | 59% |
| SE | Rajkot | 1 032 | 380 | 63% |
| SE | Ludhiana | 541 | 58 | 89% |
| SE | Jaipur | 669 | 331 | 51% |
| SE | Bhubaneshwar | 148 | 84 | 43% |
| SE | Guwahati | 204 | 72 | 65% |
| SE | Patna | 319 | 405 | 27% |
| SE | Cochin | 816 | 380 | -53% |
| SE | Bangalore | 3 669 | 175 | -95% |
| SE | Hyderabad | 522 | 82 | 84% |
| SE | Coimbatore | 254 | 121 | 52% |
| SE | Mangalore | 117 | 18 | -85% |
| M | Nagpur | 348 | 79 | -77% |
| M | Lucknow | 247 | 336 | 36% |
| M | Bhopal | 29 | 13 | -55% |
| C1 | Panjim | 40 | 23 | -43% |
| C1 | Jabalpur | 54 | 12 | -78% |
| C1 | Shimla | 18 | 3 | 83% |
| C1 | Asansol | 90 | 15 | 83% |
| C1 | Vijayawada | 440 | 24 | 95% |
| C1 | Trivandrum | 25 | 9 | -64% |
| C2 | Ankleshwar | 6 | 4 | 33% |
| C2 | Manmad | 2 | 3 | 50% |
| C2 | Ranigunj | 29 | 5 | -83% |
| C2 | Barabanki | 9 | 2 | 78% |
| | | 27 470 | 12 713 | -54% |

| | Comments | No of towns | Total | Level of Confidence |
|------|---|--------------------|---------------|----------------------------|
| MMSE | As estimated above | 4 | 7 387 | Medium High |
| SE | As estimated above and taking into account balance towns at an average of 320 SMSBs per SE town | 17 | 5 440 | Medium High |
| M | Based on estimates provided in the survey we have assumed an average of 100 | 8 | 800 | Medium |
| C1 | Based on the estimates provided in the survey we have assumed an average of 16.5 | 280 | 4 620 | Low |
| C2 | Based on estimates provided in the survey we have assumed an average of 3.5 | 358 | 1 253 | Low |
| | | | 19,500 | |

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Table D9

Estimates of Active FDAs

| | Cities | Peak | Current | % Change |
|----|--------------|---------------|---------------|------------|
| SE | Mumbai | 2 222 | 6 434 | 190% |
| SE | Delhi | 2 914 | 3 152 | 8% |
| SE | Chennai | 3 508 | 2 315 | 34% |
| SE | Patna | 2 065 | 2 276 | 10% |
| SE | Calcutta | 1 281 | 2 104 | 64% |
| SE | Pune | 1 425 | 1 375 | -4% |
| SE | Bangalore | 1 469 | 1 263 | -14% |
| SE | Baroda | 137 | 556 | 306% |
| SE | Indore | 285 | 302 | 6% |
| SE | Coimbatore | 151 | 225 | 49% |
| SE | Bhubaneshwar | 161 | 207 | 29% |
| SE | Ahmedabad | 201 | 175 | -13% |
| SE | Guwahati | 108 | 106 | -2% |
| SE | Ludhiana | 93 | 72 | -23% |
| SE | Hyderabad | 84 | 55 | -35% |
| SE | Cochin | 65 | 52 | -20% |
| C2 | Barabanki | 390 | 607 | 56% |
| C1 | Asansol | 168 | 110 | -35% |
| C1 | Shimla | 56 | 81 | 45% |
| | | 16,783 | 21,467 | 28% |

| | Comments | No of towns | Total | Level of Confidence |
|----|---|-------------|---------------|---------------------|
| SE | As estimated above and taking an average of 250 each for balance stock exchange towns | 21 | 21 919 | Medium High |
| C1 | Considering an average of 100 per town | 288 | 28 800 | Low |
| | | | 50,719 | |