

# THE ONLINE BROKERAGE INDUSTRY



180Degrees  
CONSULTING  
— SGGSCC —

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# EXECUTIVE SUMMARY

## INTRODUCTION

Online trading has drastically changed the way of investing in the stock market for common people through various platforms. It has become easier for clients to buy, sell, and trade stocks without going through a traditional broker. The online brokerage industry refers to the digital platforms and services that allow individuals to buy and sell securities such as stocks, bonds, and mutual funds. These platforms are typically accessed via the internet and are operated by firms such as Charles Schwab, TD Ameritrade, and E\*TRADE.

Online brokerages have become increasingly popular in recent years as they offer a convenient and cost-effective way for individuals to manage their investments. Online brokerage firms provide a variety of services and tools to help investors make informed decisions, such as real-time market data, research reports, stock analysis tools, and more. Investors of all experience levels can now access the stock market with confidence.

Online brokerages get regulated by the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA). To be approved by the SEC and FINRA, online brokers must meet certain legal and financial requirements. They must also demonstrate that they have adequate customer protection in place, such as insurance and arbitration procedures.

While selecting an online broker, it is essential to compare the fees, services, and features different firms offer. Investors should also consider their individual needs and goals while choosing a broker.

By selecting the right online broker, investors can make informed decisions and take advantage of the many benefits that online trading offers.

## PROBLEM STATEMENT

Despite the growth of the online brokerage industry, volatility in equity and interest rate markets, currency exchange rates, and commodity prices caused by the outbreak of the COVID-19 pandemic has resulted in increased risk management measures and a decline in market value, making it difficult for investors to access the securities markets cost-effectively.



## REPORT DELIVERABLES

- A detailed overview of the current state of the online brokerage industry, including market size, growth trends, and key players.
- An analysis of the competitive landscape, including a comparison of different online brokerage platforms and their respective offerings.
- Identifying key industry trends and their potential impact on the market.
- An assessment of the current challenges facing the online brokerage industry and potential solutions.
- Recommendations for industry stakeholders on how to capitalize on opportunities and address industry challenges.

- Data and insights on consumer behaviour and demographic data of the industry, the industry's future projection, and growth opportunities.
- Case studies of successful and innovative strategies adopted by companies in the industry.

## PROPOSED SOLUTIONS

- The report researches the latest trends and developments in the online brokerage industry. Identify the major players, their services, and the potential growth areas.
- Secondly, analyze the current financial position of the online brokerage industry and assess the risk factors that might impact the industry.
- Consider the economic, legal, and political environment, as well as the competition and technological advancements.

## PAST AND THE PRESENT OF BROKERAGE INDUSTRY

The brokerage industry has undergone significant changes over the years- both in terms of technology and regulation.

In the past, stockbrokers were responsible for physically buying and selling stocks on behalf of their clients. It often involved copious manual effort and communication via telephone or in-person meetings. The process was also relatively opaque, with little information available to the average investor.

However, the advent of computerization and the internet has revolutionized the industry. Today, online brokerage platforms have made it possible for individuals to buy and sell stocks with just a few clicks. It has enormously increased the accessibility and efficiency of the markets.

Regulations have also played a major role in shaping the brokerage industry. The passing of laws such as the Securities Exchange Act of 1934 and the Dodd-Frank Wall Street Reform and Consumer Protection Act has helped to protect investors from fraud and other abuses. These laws have also led to increased transparency and accountability in the industry.

Despite these changes, the basic role of a broker remains the same: to connect buyers and sellers in the marketplace. However, the way it happens has changed dramatically and is likely to continue to evolve as technology and regulations continue to shape the industry.

Overall, the brokerage industry has come a long way, but it will be interesting to see how it will change in the future. With the ongoing advancements in technology and the increasing focus on consumer protection, the industry will likely continue to evolve and adapt to meet the needs of investors.

## VALUE

The online brokerage industry has experienced significant growth in recent years, with the global online trading platform market size reaching a value of nearly USD 9.21 billion in 2022. This growth is expected to continue in the coming years, with the market forecasted to grow at a CAGR of 5.80% during the forecast period of 2023-2028, reaching a value of approximately USD 12.92 billion by 2028.

Before the outbreak of COVID-19, the online brokerage industry was already experiencing steady growth. However, the pandemic has accelerated the shift towards online trading, as social distancing measures and lockdowns prompted many individuals to turn to digital platforms for their investment needs. With many people stuck at home, there was a significant increase in the number of new online brokerage accounts opened. It led to a surge in trading volumes and an overall increase in the value of the online brokerage industry.



# OVERVIEW

## KEY PERFORMANCE INDICATORS

Online brokerage is a rapidly growing industry, and with that growth comes the need for key performance indicators (KPIs) to measure the success and efficiency of these companies. Here we will discuss some of the most vital KPIs for online brokerage firms.

### 1. ACCOUNT OPENING

Account openings are key performance indicators (KPIs) for the online brokerage industry because they measure the success of firms in acquiring new clients. The greater the number of new accounts opened, the greater the potential revenue and trading volume a firm can generate.

In the online brokerage industry, new accounts can come from either individual or institutional investors. The number of new accounts opened can be influenced by a wide range of factors like marketing and advertising efforts, the ease of the account opening process, and the overall reputation of the firm. A brokerage firm that can efficiently acquire new clients and open a higher number of new accounts is thought to be performing well in terms of account openings as a KPI.

### 2. TRADING VOLUME

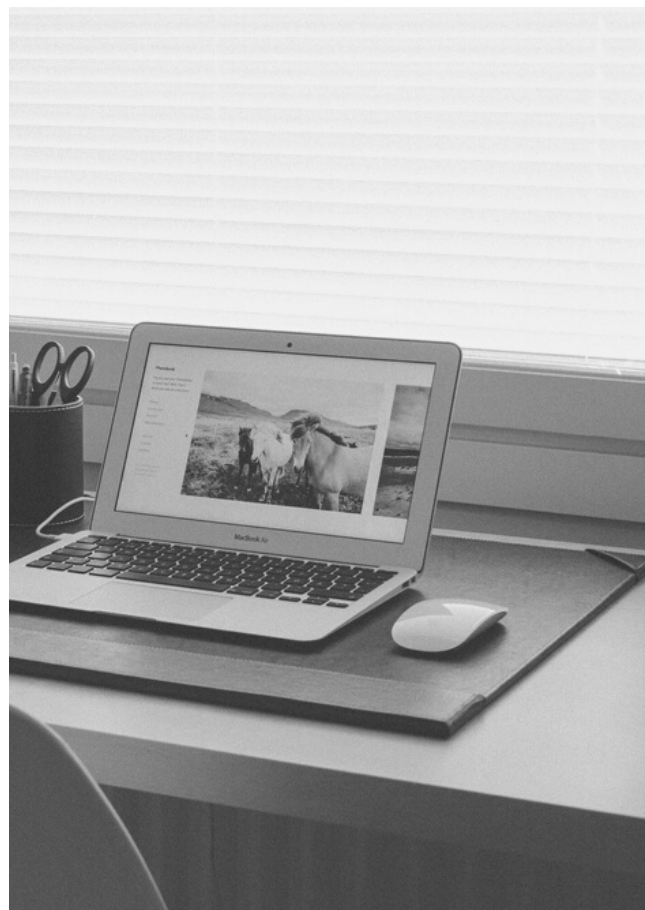
Trading volume is another key performance indicator (KPI) for the online brokerage industry, as it measures the level of activity and liquidity in the market. It represents the total number of shares or contracts traded over a specific period, usually measured on a daily, weekly, or monthly basis.

Trading volume is a critical KPI for online brokerage firms as it is a measure of the firm's ability to facilitate trades and generate revenue. It also serves as an indicator of the overall health of the market and can be used to identify trends and make informed decisions.

### 3. CLIENT RETENTION

It measures the ability of a firm to retain its existing clients.

The retention rate can be calculated by dividing the number of clients at the end of a specific period by the number of clients at the start of that period



A high retention rate is typically considered to be above 80%. Client retention is vital because this can be more cost effective to retain existing clients than to acquire new ones.

### 4. REVENUE

Revenue is an important key performance indicator (KPI) in the online brokerage industry as it tracks the amount of money a company receives from its customers and other sources. It is an essential indicator of a company's financial performance and can be a valuable metric. Revenue can be used to measure the ability to attract and retain customers. By tracking revenue over time, companies can gain insight into their market's effectiveness and identify any potential areas for improvement.

## 5. MARGINS

Margins refer to the rate of return or profit a broker makes when they execute a trade for their customer. Brokers commonly measure the margin rate they charge as a percentage of the total value of the position they are trading. This rate is often referred to as the margin rate and is an indicator of a broker's competitive edge. Brokers can also use margins to determine their market share. Margins can be compared to those of other online brokers to understand how competitive their rates are relative to the rest of the market.



## 6. EXECUTION SPEED

Faster execution speeds mean better customer satisfaction, higher performance, and higher confidence in the brokerages' services. Therefore, it is critical to measure and monitor the execution speed of these brokerages as a key performance indicator (KPI).

The execution speed of an online brokerage can be measured in multiple ways. The most common metric is the time taken for a trade to be placed, approved, and executed. Another possible metric to measure is the order execution rate. It is the rate at which a broker executes orders in a given period. This rate can be used to compare the performance of different brokerages and can also be used to identify areas for improvement.

## 7. PLATFORM RELIABILITY

Platform reliability is the ability of a platform to ensure the services and products it offers are delivered in a timely, dependable, and efficient manner. It includes ensuring that the platform is secure and capable of handling large volumes of trades, transactions, and customer inquiries.

Platform reliability is essential for protecting customers' interests and ensuring that online brokers can offer the best possible service. Through regular monitoring and maintenance of all aspects of the platform, brokers can achieve the highest levels of platform reliability and customer satisfaction.

## MARKET DRIVERS

### 1. GROWING DIGITAL AND TECHNOLOGICAL ENVIRONMENT:

Over the years, the dependence on and utilisation of smartphones has increased by various folds. As well as the growing internet penetration, along with rapid growth in the digital economy, is responsible for the rapid shoot-up in demand for online brokerage platforms as they offer a high level of convenience and flexibility and create the procedure of trading smoothly, cost-effectively and quickly.

### 2. ARTIFICIAL INTELLIGENCE (AI):

The growing Artificial Intelligence is predicted to change how the online brokerage industry will operate in the upcoming future. Companies are deploying AI in their trading platforms in the form of Robo-Advisors. These platforms enabled with AI technology, assist users to observe millions of data pointers and execute practices at an optimal price, also helping in a more precise study of the market and more efficient mitigation of the risks to provide higher returns.

### 3. COMMISSIONS:

Commissions are another factor that influences the behaviour of people to opt for online brokerage platforms. It is so because the elimination of physical brokers does not involve any commissions for brokerage, hence people find it more convenient and value-worthy to opt for an online brokerage platform. Thus, commissions are the market drivers that compel people to buy or pay through online brokerage platforms.

### 4. CUSTOMER CONFIDENCE:

Increased customer confidence is a crucial driver for the online brokerage industry. As customers become more comfortable with trading online, they are more likely to use digital brokers, increasing the demand for services and allowing the online brokerage industry to expand and grow, leading to more competition and better services.

## MARKET RESTRAINTS

### 1. REGULATORY RESTRAINTS

Scrutiny from regulatory bodies, who are working to ensure that these platforms are operating in a safe and fair manner. One of the primary regulatory concerns for the online brokerage industry is the protection of investors. That includes ensuring that investors are provided with accurate and complete information about the investments made by them, as well as protecting them from fraud and other forms of misconduct. To address these concerns regulatory bodies, such as the Securities and Exchange Commission (SEC), have implemented rules and regulations that online brokerage firms must comply with.

### 2. TECHNOLOGICAL RESTRAINTS

The primary technological restraint for the online brokerage industry is the need to ensure the security and reliability of their platforms. That includes protecting sensitive customer data from cyber attacks and breaches as well as ensuring that the platform is available and functioning properly at all times. To address these concerns, firms must invest heavily in cybersecurity measures and disaster recovery plans, and regularly test and update their systems to stay ahead of new threats.

Another technological restraint for online brokerage firms is the need to keep up with rapidly advancing technology. This includes staying current with new developments in areas such as artificial intelligence, blockchain, and mobile technology, along with ensuring that their platforms are compatible with the latest devices and operating systems.

This can prove to be a significant challenge for firms, as it requires ongoing investment in research and development and the ability to adapt quickly to changing market conditions.

### 3. POLITICAL RESTRAINTS

Governments around the world are continuously updating and revising laws and regulations related to the finance industry, which can make it difficult for firms to stay compliant and competitive. These can include changes in laws related to data privacy, cybersecurity, and investment practices, which can require firms to make significant changes to their operations and systems.

Another political restraint for online brokerage firms is the potential for geopolitical instability. This can include factors such as trade disputes, currency fluctuations, and political unrest, which can affect the global economy and in turn, the markets in which firms operate. This can lead to increased volatility and uncertainty in the markets, making it difficult for firms to predict and manage risk.

### 4. COMMISSIONS

The online brokerage industry also faces significant competition from other firms, which can make it difficult for individual firms to stand out and attract customers. It can require firms to invest heavily in marketing and customer acquisition efforts and to continuously innovate and improve their offerings to stay in the competition.

### 5. LEGAL RESTRAINTS

The need to navigate the complex and ever-changing legal and compliance landscape. It includes staying abreast of new laws and regulations related to the finance industry in addition to ensuring compliance with existing laws such as the Foreign Account Tax Compliance Act (FATCA) and the Anti-Money Laundering (AML) regulations. This can be a significant challenge for firms since it requires ongoing investment in legal and compliance personnel and systems.

### 6. RISK MANAGEMENT

Risk management includes identifying and assessing potential risks associated with different investments, along with developing and implementing strategies to mitigate those risks. The same can prove to be a challenge as this industry is subject to significant volatility and uncertainty. In conclusion, the online brokerage industry faces a variety of constraints including regulatory, technological, political, competition and customer trust. These constraints require firms to be aware of the industry environment, stay compliant with the regulations and continuously innovate and adapt to stay in the competition and gain customer trust.

## MAJOR PLAYERS

### 1. ZERODHA BROKING LTD.

Zerodha Broking Limited is an Indian Financial Services company. The Company offers retail and institutional broking currencies and commodities trading, mutual funds, and bonds, Zerodha Broking serves customers throughout India. They started their operations on 15th August 2010 intending to break all the barriers faced by traders and investors.

### 2. UPSTOX

Upstox is a tech-first low-cost online trading platform in India which provides trading opportunities at unbeatable prices. The Upstox trading software can be accessed through mobile as well as a web browser. It helps the users in trading across different segments and exchanges. It offers automated trading through API and semi-auto trading through the Amibroker plugin.

### 3. GROWW

Groww started its operations in 2017 as a direct mutual fund distribution platform. Within a year, it became one of the most popular mutual fund investment platforms in the whole country.

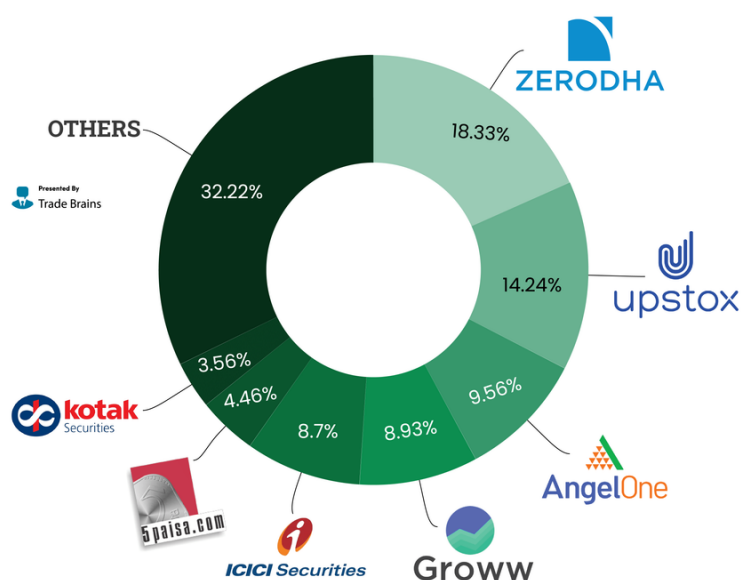
Keeping up with user demand, Groww added stocks in the early half of 2020. In the same year, they launched digital gold and ETFs. Intraday trading, IPOs came in quick succession.

### 4. ANGEL ONE LIMITED

It is an India-based full-service retail brokerage company. The company is engaged in the business of stocks, currency and commodity broking, providing margin trading facilities, depository services and distribution of mutual funds to its clients. It also provides portfolio management services. Its broking and related services segment offers broking, advisory, third-party product distribution, margin trade facility and other fee-based services.

### 5. SHAREKHAN

Sharekhan Limited operates as a brokerage firm and offers online security brokerage and portfolio management services to institutions, large corporate houses, and individual investors. Sharekhan offers a wide range of savings and investment solutions, including equities, futures and options, currency trading, portfolio management, research and mutual funds and investor education.



(AS PER THE TOTAL CLIENTS ON NSE, DEC '21)



# HISTORY OF THE BROKERAGE INDUSTRY

## **1602: THE AMSTERDAM STOCK EXCHANGE**

The first contemporary stock market, the Amsterdam Stock Market, was founded in 1602. Generally speaking, it was established to exchange Dutch East India Company stock. (Verenigde Oostindische Compagnie).

In order to compete for the exports from the slave and spice trades, the Dutch East India Company, the first publicly traded company, provided shares to purchase and sell for these early voyages.

Trading was initially only possible as a result of that one business. The dealing of the first derivatives started in 1607, and the first dividend payments came a few years later.

## **1792: THE BUTTONWOOD AGREEMENT**

Americans gather around a tree to establish a framework for the stock market.

There was a buttonwood tree before Wall Street became Wall Street. And on May 17, 1792, a group of 24 eminent brokers met around the tree to sign the document that would bear their names.

The Buttonwood Agreement, which established the standard commission at 0.25% and paved the path for the contemporary broker, a person whose main purpose is to facilitate the sale of financial instruments, marked the beginning of the structured financial market in the United States.

## **1840-1900: COMMUNICATION TECHNOLOGIES**

Investing is no longer tied to a specific time and place. Buttonwood tree no longer required. The Telegraph, which was created in 1844, the transatlantic cable, which was created in 1866, and the telephone, which was created in 1876, all transformed communication and provided new opportunities for financial organizations.

## **1934: THE SECURITIES EXCHANGE ACT**

In an effort to prevent further financial catastrophes, President Roosevelt's administration passed new legislation governing stock market trades five years after the stock market crash of 1929.

The Securities Exchange Act of 1934, which was passed on the basis that the financial sector's careless practices were to blame for the crash, established a new regulatory body, the Securities and Exchange Commission (SEC), with the goal of fostering transparency, accuracy, and fairness while reducing fraud.

## **1975: MAY DAY**

No set fees and the introduction of the discount broker. The financial sector struggled with its customary 2% fixed commissions in the years before May 1, 1975. The stock market was found to be subject to antitrust regulations by the courts in *Silver v. New York Stock Exchange* more than ten years previously.

The SEC was pressed by the Federal Trade Commission, headed by Chairman Paul Dixon, five years later, in 1968, to explain why fixed commissions shouldn't be made illegal as an anti-competitive practice. On the first of May in 1975, the SEC ultimately ordered the deregulation of commission rates since the high costs of trading discouraged widespread public involvement.

Discount brokers like Charles Schwab and TD Waterhouse were also born on May Day. With approximately 25% more customers directly or indirectly owning equities in just the first five years, public engagement in the stock market increased dramatically. In the early 1970s, commissions were on average over 80 cents per share, but at the beginning of the 21st century, they were only about 4 cents per share.

## 1988-2000: RISE OF THE COMPUTERS

Robots > humans. People enjoy fewer costs and easier access to investment opportunities. Computers enabled financial institutions to increase their investor base and improved market communication, much as the development and spread of new technology at the end of the 19th century. ETrade and Scottrade helped establish online brokerages in the early 1990s by providing cheaper and easier trading for anyone with access to a computer or phone.

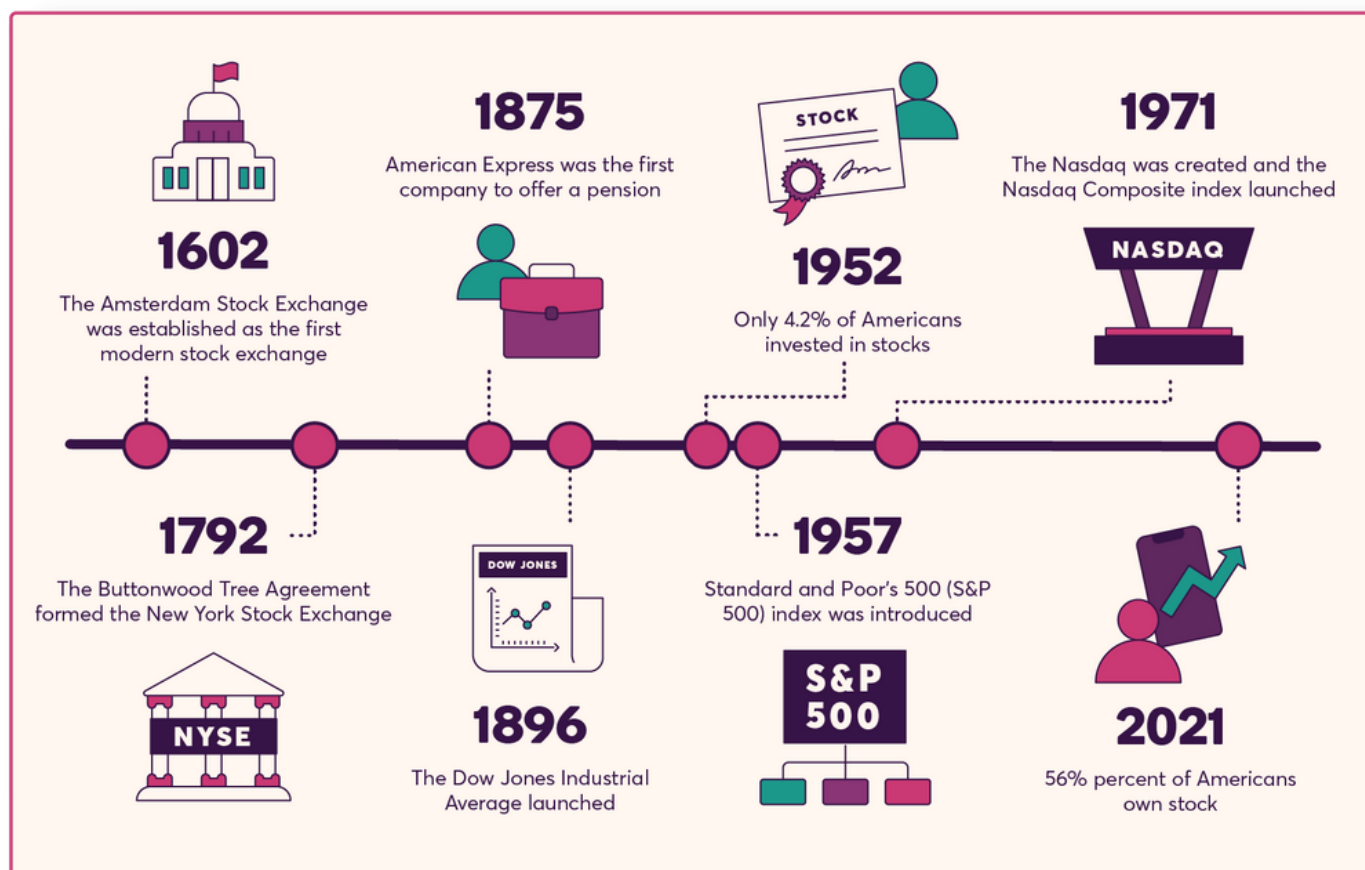
By the turn of the millennium, paperless account opening had taken centre stage, and the need for human intermediaries in financial transactions had been eliminated.

As these efficiencies and savings were transferred to the average investor, these new technologies delivered both crucial barriers a severe blow. As a result, by the end of 2000, around 80 million households owned equities directly or indirectly.

## 2010S: MOBILE TRADING AND THE ROBO-ADVISOR

Everyone has a broker in their pocket. And the designs no longer suck.

The decade of 2010 saw technology grow at a seemingly exponential rate, with smartphones building on the achievements of computers from earlier decades.



# TYPES OF BROKERAGE

If you require or are considering using brokering services of any kind, there are three primary types of brokers and brokerage firms to be aware of: online, discount, and full-service brokers.

## ONLINE BROKERAGE

Nowadays, a lot of brokers work online. Online brokers provide their services online, connecting digitally and remotely with clients and other relevant parties to provide even speedier transactions and greater convenience, particularly when those parties are dispersed over various cities, states, or even other continents.

The financial services sector has seen a lot of innovation because of online trading platforms. For instance, robo-advisors actively manage portfolios using computer algorithms rather than human input. These services offer a reasonably priced substitute for a traditional financial counsellor. Online brokers come in both full-service and cheap varieties. Some businesses, like E\*Trade, have been operating online continuously for their entire life.

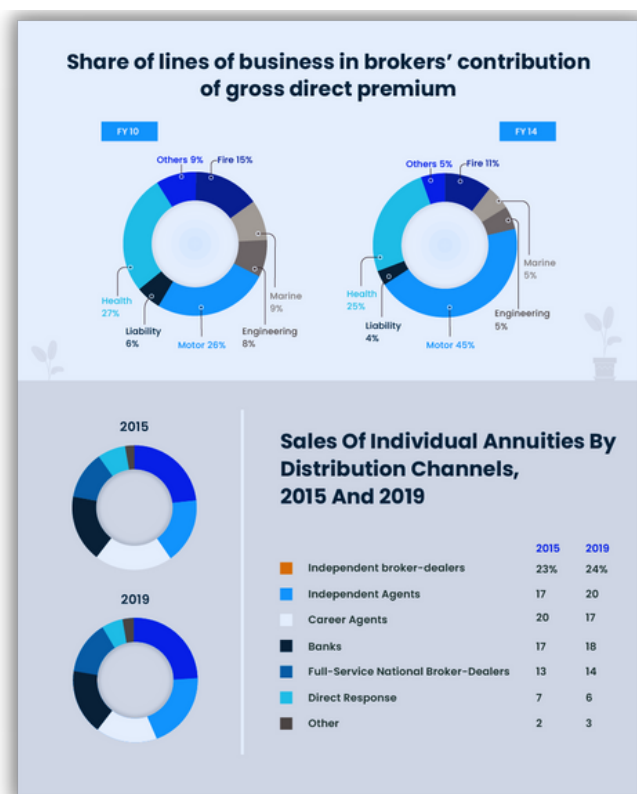
Mobile apps are becoming a more feasible platform for brokerage companies as younger individuals begin their stock trading journeys. As a mobile-first online brokerage, Robinhood is one business that has embraced this trend.

## DISCOUNT BROKERAGE

Stockbroking services are a common area of expertise for discount brokers. As their name suggests, they also frequently provide services at lower than typical rates, doing tasks like executing buy and sell orders for their clients at a discount on the stock market.

Instead of serious, high-value investors, these brokerages are made to appeal to the general trading public. They thus frequently don't provide the same level of service as a full-service brokerage.

The kinds of assets that investors who use discount brokerages can trade or the quality of financial advice they can obtain might be restricted.



However, several of these companies have recently begun to provide instructional materials that might aid novice investors in making wise investment choices without the direct involvement of a financial advisor.

Many inexpensive brokerages opt to completely waive trading fees for some categories of securities. For more specialised channels, such as options trading, these costs are frequently still applicable.

## FULL-SERVICE BROKERAGE

A full-service brokerage provides its clients with a wide range of services, such as financial advice, research, retirement planning, investment products, and more.

For their services, these brokerages may demand an annual fee or another kind of compensation. However, for individuals dealing with significant quantities of money or who want to adopt a more active, informed approach to investing, these advantages can make a significant difference.

Financial advisor-provided investment advice is one of the most popular services that full-service brokerages provide. Before working with investors, these people must pass a demanding series of financial tests, so they have a wealth of expertise to draw from as they assist you in developing your investment strategy.

Their advice on financial planning helps ensure that your complete business portfolio is able to profit from market conditions. A wonderful illustration of a full-service brokerage that also provides discounts and internet platforms is Fidelity.

## **EXAMPLES OF BROKERAGE SERVICES**

A vast variety of services can be offered by brokers. Examples of the various kinds of brokering services that are offered to clients and interested parties include the following:

- Stock
- Credit
- Real Estate
- Investment Funds
- Cryptocurrency

### **STOCK**

A stock brokerage or stockbroker is a middleman who focuses on executing buy and sell orders on the stock market or commodity market on behalf of customers.

### **CREDIT**

A broker who focuses on the brokerage of credit is known as a credit broker.

In other words, they can assist borrowers in obtaining credit in the form of loans or credit lines by putting them in touch with creditors and lenders prepared to offer those kinds of financial services.

### **REAL ESTATE**

Real estate brokers play a significant role in the industry since many buyers and sellers of real estate rely on them to assist in negotiating the sales of their homes. Brokers can make the process easier for both parties by assisting them in reaching an agreement on the terms and price of a real estate deal.

### **INVESTMENT FUNDS**

Investment funds are available as tradable securities from numerous brokerages, especially broker-dealers. These funds provide investors with an easy approach to diversifying their portfolios because their prices are based on the industry, financial market, or stock exchange's performance.

### **CRYPTOCURRENCY**

Cryptocurrencies, one of the more recent entrants to the market for financial products, are digitally distributed virtual currencies that are protected by encryption. Despite being capable of transactions, they are most frequently utilised as investment vehicles.

# LEGAL FRAMEWORKS

## USA

U.S. broker-dealer regulation is stringent. Rightfully so, Broker-dealers frequently deal with enormous sums of money, including other people's money, whether they are dealing with stocks, currencies, bonds, or other financial products. Naturally, the American government wants to keep the undesirables out and preserve investor faith. Be prepared for red tape, of course, whether you intend to establish your broker-dealer business or have already started doing so.

## IMPORTANT BROKER DEAL REGULATION LAWS AND RULES

The Securities Act of 1933 and the Securities Exchange Act of 1934 are the two laws that serve as the foundation for broker-dealer regulation. There have been more since then, with more to come. The list below is not exhaustive, but it provides an overview of the current legal framework.

- **The Securities Act of 1933:** Applies to the primary market (IPOs) to ensure transparency in documents and financial statements to help investors make informed decisions.
- **The Securities Exchange Act of 1934:** Applies to the secondary market to prevent fraud in the trading of existing securities between investors. Also created the Securities and Exchange Commission (SEC).
- **Trust Indenture Act of 1939:** For debt securities like bonds, debentures, and notes.
- **Investment Company Act of 1940:** Regulates the organization of companies investing, reinvesting, and trading in securities, including those offering their own securities.
- **Investment Advisors Act of 1940:** For the registration of money managers and mutual fund managers.
- **Securities Investor Protection Act of 1970 (SIPA):** Created the Securities Investors Protection Corporation (SIPC).

- **Sarbanes-Oxley Act of 2002:** Enhanced corporate responsibility and financial disclosures, combat corporate and accounting fraud.
- **Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010:** For consumer protection, trading and financial product regulation, credit ratings, corporate governance and disclosure, and transparency. Different broker-dealer regulations may apply depending on the services you provide. For example, if your market includes European customers, you may be required to demonstrate compliance with the recently implemented General Data Protection Regulation (GDPR).





## INDIA

The Securities and Exchange Board of India Act, 1992, contains regulations that regulate the brokerage industry in India. Under the Securities Contracts (Regulation) Act of 1956, the stock exchanges are under the general supervision of the Securities Exchange Board of India, which was established by the SEBI Act of 1992. On February 21st, 1992, SEBI was established with the dual goals of regulation and growth. The current broker regulations are large enough to safeguard investors' needs.

The Securities Contract (Regulation) Act of 1956 recognizes stock exchanges as the sole venues for the dealing of securities. The majority of stock exchanges in India are mutually owned, which is advantageous in terms of tax breaks and regulatory compliance. The exchanges are owned, controlled, and operated by trading members who also offer brokerage services. Only brokers have access to an exchange's trading platform. Demutualized exchanges permit brokers' unrestricted access and departure. On behalf of his clients or on his own account, the broker makes deals in exchanges.

Brokers work with secondary markets to sell and buy securities such as stocks and bonds. Trading can take place in a variety of ways, including continuous auctions and brokers buying from and selling to dealers in stock markets. The eligibility requirements for stock exchanges vary by country, as does the extent to which the government participates in their management.

### IMPORTANT BROKER-DEALER REGULATION LAWS AND RULES

- The client shall invest/trade in those securities/contracts/other instruments admitted to dealings on the Exchanges as defined in the Rules, Byelaws and Regulations of Exchanges/ Securities and Exchange Board of India (SEBI) and circulars/notices issued there under from time to time.
- The stock broker, sub-broker, and client shall be bound by all of the Exchange's Rules, Byelaws, and Regulations, as well as any circulars/notices issued thereunder, as well as the Rules and Regulations of SEBI and any relevant notifications of Government authorities in force from time to time.

- The client shall satisfy itself of the stock broker's capacity to deal in securities and/or deal in derivatives contracts before executing orders through the stockbroker, and the client shall continue to satisfy itself of such capability of the stock broker from time to time before executing orders through the stockbroker.
- The stockbroker must maintain constant confidence in the client's genuineness, financial soundness, and the client's investment objectives relevant to the services provided. The stock broker shall take reasonable steps to inform the client of the precise nature of the stock broker's liability for the business to be conducted, including any limitations, liability, and capacity in which the stock broker acts.
- The sub-broker shall assist and cooperate with the stock broker in all its dealings with the client (s).



## JAPAN

Japan has one of the world's largest and most diverse brokerage industries. Brokerages in this market include everything from some of the world's largest banks to small-town specialists with only a few employees working out of a single office.

As each of these brokerages competes for the same overall pool of market share, expectations for each of these different actors are changing. For the most part, this means that the stakes are higher.

Japan also has one of the oldest populations in the world, owing to decades of low birth rates and excellent health care. Even if they remain active for longer than in other countries, older segments of the population eventually stop trading. People in their 60s, 70s and 80s are leaving the business in greater numbers, and they frequently leave behind brokerage relationships that span decades.

These customers are difficult to replace by the brokerages that they leave behind. These institutions are dispersed throughout the country, with only a few offices in a single prefecture. They rely on phone trading, which has high operating costs due to the need to maintain physical infrastructure and sales teams. Technology is frequently primitive, and large institutions are often decades behind. Unlike the country's reliance on the fax machine, this can pose significant challenges to the system. However, upgrading comes with significant costs, particularly as a percentage of revenue for a smaller firm, as well as a time investment.

## SESC

The Securities and Exchange Surveillance Commission (SESC) is a Japanese regulatory body that reports to the Japan Financial Services Agency. It is in charge of ensuring fair transactions and overseeing the brokerage industry. In 1992, the FSA established the SESC.

- The SESC aims to ensure the fairness and transparency of markets and to protect investors.
- Investigations of market misconduct including insider trading and market manipulation
- Inspections of violations in disclosure requirements by listed companies

- Recommendations of administrative actions or administrative monetary penalty payment orders, or filing criminal charges based on the results of the above investigations, inspections or monitoring

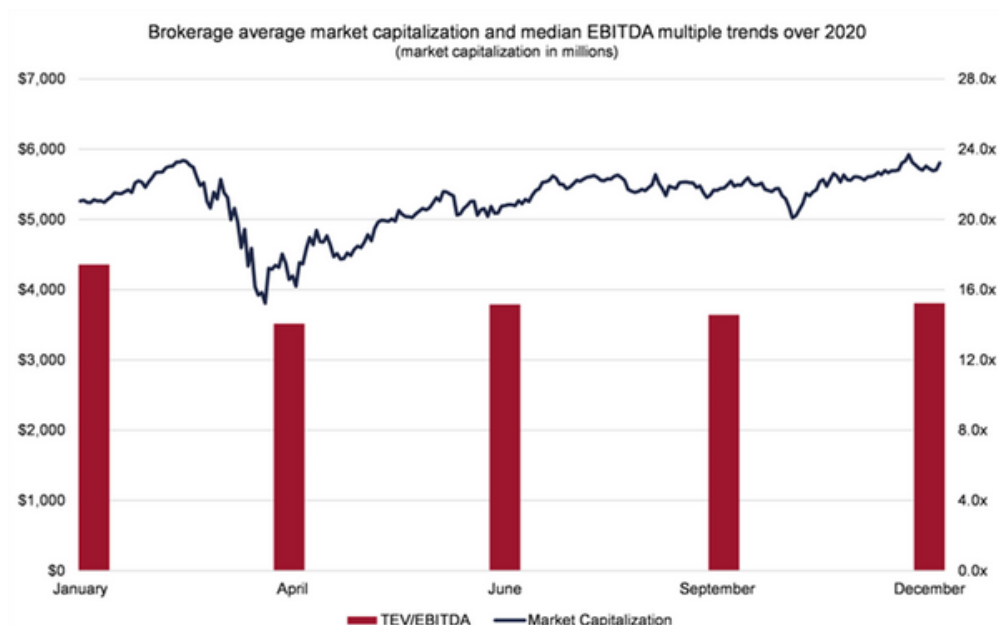
## GERMANY

The German online brokerage industry has oligopolistic characteristics. The vast majority of market share is held by a few large companies, with new competitors finding it difficult to gain market share. In terms of European expansion and product diversification, German online brokers are the most advanced. Germany has one of the Eurozone's largest economies and is the driving force behind many financial market activities in Europe. BaFin regulates the German financial market.

Germany is a model market for an online brokerage for a variety of reasons. The number of securities accounts was declining at the end of 2010, but due to the prolonged low-interest-rate setting, this trend has reversed in recent years. In Germany, a few large corporations control the majority of the market. Online brokers in Germany compete on account maintenance fees, trade order fees, deposit fees as a percentage of funds, technological advancements, and the creation of an easy-to-use trading platform for customers.

# IMPACT OF COVID-19 ON THE BROKERAGE INDUSTRY

The COVID-19 pandemic has had a profound impact on the global economy and the financial services sector, including the brokerage industry. The industry has been significantly impacted by unprecedented market volatility, the decline in trading activity, and the negative impact on companies, leading to a decline in revenue. The pandemic has also accelerated the digitalization of the brokerage industry and affected retail investors and the initial public offering (IPO) market.



## VOLATILITY IN STOCK MARKETS

The COVID-19 pandemic has led to unprecedented market volatility, with the stock markets experiencing sharp fluctuations in response to the economic uncertainty and public health crisis. This has led to an increase in trading activity, particularly in the online brokerage space, as retail investors sought to take advantage of market swings. At the same time, high volatility has also resulted in a decline in confidence among investors, leading to a reduction in trading activity.

## DECLINE IN TRADING ACTIVITY

The pandemic has resulted in a decline in trading activity, as many investors adopted a wait-and-see approach in response to market uncertainty. This has led to a decline in revenue for brokerage firms, as the trading volume and commissions have declined. In

addition, the rise of remote working has also had an impact on the industry, with many brokers struggling to adapt to the new working environment and maintain the same level of activity.

## NEGATIVE IMPACT ON COMPANIES

The COVID-19 pandemic has had a negative impact on many companies in the brokerage industry, with some firms facing significant financial losses. The decline in trading activity, combined with the impact of market volatility, has led to a decline in revenue for many brokerage firms. The industry has also been impacted by the rise of remote working, with some firms facing operational challenges as they struggle to adapt to the new environment.

## **IMPACT ON REVENUE**

The COVID-19 pandemic has had a significant impact on the revenue of brokerage firms. The decline in trading activity, combined with the impact of market volatility, has led to a decline in revenue for many firms. In addition, the rise of remote working has also had an impact, with some firms facing operational challenges and struggling to maintain their revenue streams.

## **DIGITALIZATION OF BROKERAGE INDUSTRY**

The COVID-19 pandemic has accelerated the digitalization of the brokerage industry, as many firms have had to adapt to the new remote working environment. The industry has seen an increase in the use of online platforms, as brokers have been forced to move away from traditional face-to-face interactions with clients. This has led to an increase in the use of digital tools and services, such as robo-advisors, to support investors in making informed investment decisions.

## **IMPACT ON RETAIL INVESTORS**

The COVID-19 pandemic has had a significant impact on retail investors, with many adopting a wait-and-see approach in response to market uncertainty. The decline in trading activity, combined with the impact of market volatility, has led to a reduction in confidence among investors. At the same time, the rise of remote working has also led to an increase in the use of digital platforms, as retail investors seek to access information and make investment decisions from home.

## **IMPACT ON IPO MARKET**

The COVID-19 pandemic has also had an impact on the IPO market, with many firms delaying their plans to go public in response to economic uncertainty. The decline in trading activity and market volatility has also led to a decline in the demand for new offerings, leading to a slowdown in the IPO market.

# IMPACT OF COVID-19 ON INDIVIDUAL BROKERAGE COMPANIES

The COVID-19 pandemic has had a significant impact on the financial services sector, including the brokerage industry. Let's analyse the impact of COVID-19 on five leading brokerage companies: Charles Schwab, TD Ameritrade, Robinhood, E-Trade Financial and Interactive Brokers.

## CHARLES SCHWAB



Charles Schwab, a leading brokerage firm, saw a surge in trading activity during the initial market volatility in response to the COVID-19 pandemic. The company reported an increase in daily average revenue trades (DARTs) of 34% in the first quarter of 2020 compared to the previous quarter. However, the company also faced operational challenges due to the rise of remote working, leading to a decline in overall revenue in the first quarter of 2020. Despite these challenges, Charles Schwab has continued to invest in technology and digital services to support clients in a remote working environment.

## TD AMERITRADE

TD Ameritrade, a leading brokerage firm, saw a surge in trading activity during the initial market volatility in response to the COVID-19 pandemic. The company reported an increase in daily average revenue trades (DARTs) of 30% in the first quarter of 2020 compared to the previous quarter.

However, the company also faced a decline in overall revenue in the first quarter of 2020, due to the impact of market volatility and the rise of remote working. Despite these challenges, TD Ameritrade has continued to invest in technology and digital services to support clients in a remote working environment.

## ROBINHOOD

Robinhood, a leading online brokerage firm, saw a surge in trading activity during the initial market volatility in response to the COVID-19 pandemic. The company reported an increase in daily average revenue trades (DARTs) of 35% in the first quarter of 2020 compared to the previous quarter.

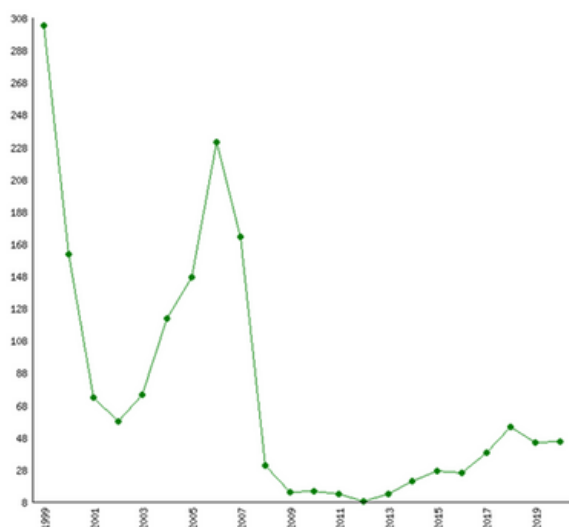
However, the company also faced significant operational challenges, including a high-profile outage during the height of the market volatility, leading to a decline in overall revenue in the first quarter of 2020. Despite these challenges, Robinhood has continued to invest in technology and digital services to support clients in a remote working environment.



## E-TRADE FINANCIAL

E-Trade Financial, a leading online brokerage firm, saw a surge in trading activity during the initial market volatility in response to the COVID-19 pandemic. The company reported an increase in daily average revenue trades (DARTs) of 25% in the first quarter of 2020 compared to the previous quarter. However, the company also faced a decline in overall revenue in the first quarter of 2020, due to the impact of market volatility and the rise of remote working. Despite these challenges, E-Trade Financial has continued to invest in technology and digital services to support clients in a remote working environment.

E\*TRADE Financial Corporation (ETFC) - 20 Years Chart



## INTERACTIVE BROKERS

Interactive Brokers, a leading online brokerage firm, saw a surge in trading activity during the initial market volatility in response to the COVID-19 pandemic. The company reported an increase in daily average revenue trades (DARTs) of 20% in the first quarter of 2020 compared to the previous quarter. However, the company also faced a decline in overall revenue in the first quarter of 2020, due to the impact of market volatility and the rise of remote working. Despite these challenges, Interactive Brokers has continued to invest in technology and digital services to support clients in a remote working environment.

## CONCLUSION

In conclusion, the COVID-19 pandemic had a significant impact on the brokerage industry, leading to a surge in trading activity during the initial market volatility and challenges in overall revenue due to the rise of remote working. Despite these challenges, all five companies analyzed in this report, Charles Schwab, E-Trade Financial, TD Ameritrade, Interactive Brokers, and Robinhood, have continued to invest in technology and digital services to support their clients during this time. The brokerage industry has been forced to adapt to the changing environment brought on by the pandemic, and it will be interesting to see how these companies continue to evolve in the post-pandemic world.

# BENEFITS OF THE ONLINE BROKERAGE INDUSTRY

## CONVENIENCE

Shares can be purchased or sold from a remote location. Users can access their online trading accounts at any time, from any location. Trading accounts can be accessed from a computer, laptop, smartphone, tablet, or other smart devices with browser- and application-based trading platforms.

## MONITORING INVESTMENTS

It provides investors with the option to monitor the performance of their funds throughout the day through their advanced user interfaces. You can look at your profit or loss on your computer or phone.

Numerous advanced interfaces and tools on your online trading platform allow you to conduct your own research and keep track of how well your investments are performing. When you log in from your phone or computer, you can see your gains and losses in real time.

## ELIMINATES THE MIDDLEMEN

You can trade without the interference of a broker thanks to online trading. This service is much more profitable because it not only makes trading easier but also lowers overall costs.

## INSTANTANEOUS TRANSACTIONS

Investors don't have to rely on a broker to tell them which are the best bets for their money; they can look at all of their options themselves. When both accounts are held at the same financial institution, funds can be transferred quickly between them.

## GREATER INVESTOR CONTROL

The fact that you have more control over your investments is one of the main benefits of online trading.

With online trading, you can trade whenever you want during trading hours and make your own decision without the broker's interference.

## SMOOTHER AND CONTINUOUS TRANSACTIONS

Continuous transactions are the main benefit of having an online trading account. Additionally, equity trading and fund transfers have become much simpler and quicker thanks to online trading. With the help of an online trading account, a number of customers are able to easily save money and invest it thanks to advances in technology. The cutting-edge technology guarantees that customers will have streamlined transactional capabilities. Using a safe trading platform gives customers the option to save money and invest with ease.

## DELIVERS RELIABLE INFORMATION

There are a number of online trading platforms where professionals with a lot of experience and knowledge provide comprehensive research reports to all investors. These reports are frequently provided by service providers, making it simpler to make educated investment decisions. Investors will have a better chance of earning if they use this report to guide their investment decisions.

## PROVIDES CUSTOMIZED SUPPORT

All of the customers of online trading platforms receive individualized support from trained and experienced executives. They will be there, ready to resolve any issues, regardless of whether they are experiencing difficulties managing the trading platform or a technical issue. Investors can also set alerts to receive notifications about buy and sell targets via SMS or email.

# CHALLENGES OF THE ONLINE BROKERAGE INDUSTRY

## RISK

Risk is inherent in all investments. However, because online trading is safe and all you have to do is click your mouse, you risk making poor decisions and investing too much. If you decide to use a trading platform, you can safeguard yourself by learning about the stocks you are purchasing and then setting up protections. You can, for instance, control how much and what you buy by placing a limit order on your account. When working with an investment platform, inexperience poses a risk. You are not connected to brokers when you use an investment platform. You won't find anyone there to help you develop an investment strategy. Having this much control over how they handle their money can be scary for some people.

## ADDICTION

It is possible to switch from investing to gambling without having the right perspective. Even though a person is aware that their actions can have negative consequences, they lose the ability to control them when something becomes addictive. Short-term strategies involving risky stocks with the potential to make much money or much money are chosen by some traders who use online platforms.

## TECHNICAL KNOWLEDGE

Because the trading terminal is based on a computer, people who know nothing about computers and the internet will need a lot of time to learn it.

## UNRELIABLE NATURE OF TECHNOLOGY

You can only trade with online trading if you have an internet connection. You run the risk of missing out on a

lucrative trade if the internet connection becomes sluggish if it is interrupted, or if there is some other technical issue. Investors have lost a lot of money as a result of computer issues. They might go through the trading process before something goes wrong. Therefore, they assume that the trade never took place. They make the trade once more and invest twice as much as they intended to.

If a trade was made without proper confirmation, the same thing can happen in reverse, costing the trader money. You must be aware of how to review statements and verify trades when investing on online platforms.

## SYSTEM ERROR

The trading terminus may not always be convenient to use, the internet may not always be up to speed, the computer may not respond, the server may fail, and the website may sometimes run slowly. Due to slower internet connections, the mechanism or system malfunctions may result in significant trading losses.

# DIVERSIFICATION

Diversification simply means spreading investments among a range of financial products, industries, and other categories to decrease risk. By making investments in many sectors that would each respond to the same occurrence differently, it seeks to limit losses.

## WHY IS DIVERSIFICATION SIGNIFICANT?

Diversification is a typical investment strategy to lower your risk of suffering losses. By distributing your investments among a variety of assets, you reduce the risk that one bad occurrence may wipe out your whole portfolio. Your portfolio is instead distributed throughout many asset classes and businesses, protecting your wealth and raising your risk-adjusted returns.

## TYPES OF DIVERSIFICATION

### 1. HORIZONTAL DIVERSIFICATION

When a company expands its product or service offerings outside of its present line and adds something new that has a strong affinity with its target market, this is known as horizontal diversification. Cross-selling possibilities to both current and potential clients can increase when Spring-Green Lawn Care is added to your present operation.

Purchase of Competing Companies in the Same Industry

U.S. Oil Company



Independent Oil Refineries



### Best Fit For

Those companies who operate in a highly competitive industry

Businesses in industries where market share is finite

### Pros

Aids companies in overcoming significant obstacles to competition

Helps businesses increase their marketing reach

Aids companies in overcoming significant obstacles to competition

### Cons

Increased monitoring by regulatory agencies

Failure risk (occurs when anticipated advantages are not realised)

Too much rapid expansion may exhaust available resources

### 2. VERTICAL DIVERSIFICATION

When a company discovers a chance for growth by shifting either ahead or backwards along the manufacturing cycle, this is known as vertical diversification. When a firm is at the end of the supply chain, forward vertical diversification looks for benefits closer to the integration. For instance, A corporation that mines iron and wants to buy steel mills. Backward vertical diversification occurs when a company at the end of the supply chain searches for upstream expansion prospects. One well-known illustration is the media giant Netflix expanding into producing its films.



Purchase of Companies at All Levels of Production



3. CONCENTRIC DIVERSIFICATION

Concentric diversification, which often makes use of the same production methods or technological resources, focuses on introducing goods and services that are connected to the principal goods or services for which the company is renowned. An illustration would be a pizza company expanding to sell calzones. Or, if you work for Spring-Green Lawn Care, you may think about including pest control services in your existing successful lawn and tree care offerings.



Best Fit For

- Businesses that depend significantly on suppliers
- Businesses that are in danger because of a faulty supply chain
- Businesses who want to gain market share

Pros

- Reduce dependency on vendors
- Profit from scale economies
- Possibility of competitive advantage from supply chain management

Cons

- High upfront fees and ongoing expenses
- Focuses less on the main undertaking
- There is no certainty that the present team's culture fits.

Best Fit For

- Businesses that don't use all of their resources
- Businesses that are experiencing a slump in their sectors (whether temporary or

Pros

- Utilises and improves existing infrastructure
- Can grow market share for less money than alternative methods
- Promotes business fusion

Cons

- Can require abilities that are outside the scope of the present workforce
- Too much, too fast can result in a lack of resources and focus
- Reduced capacity for change and flexibility in the market



### 4. CONGLOMERATE DIVERSIFICATION

Conglomerate diversification is a form of an expansion strategy that aims to include new service or product offerings that are distinct from the current service or product and are typically completely unconnected to the firm's current operation. Virgin is a well-known illustration of this. Virgin began in the music sector before branching out into transportation and eventually into cellular services, among other things.



#### Best Fit For

Companies with solid brand equity

Businesses in seasonal or declining sectors

#### Pros

Creates a distinct, independent revenue stream that, if successful, has the potential to resuscitate a venerable brand and generate

Can bring in new customers to the brand

#### Cons

Can weaken the current brand

The brand's perceived strength might not be sufficient to achieve the crossover

Cost of entry may reduce earnings for an already successful product line

# SECTORAL DISTRIBUTION

## ONLINE EQUITY BROKERAGE INDUSTRY

### OVERVIEW

In India, Stocks are traded on exchanges like National Stock Exchange(NSE), Bombay Stock Exchange(BSE), Metropolitan Stock Exchange(MSE), and others. To trade stocks on these exchanges, the investor has to hire a broker to buy and purchase securities on his behalf. The broker will execute trades on behalf of the investor, who will give the broker a commission. Indian stock brokerage industry has shifted from a percentage-led business model to a flat and subscription-based one.

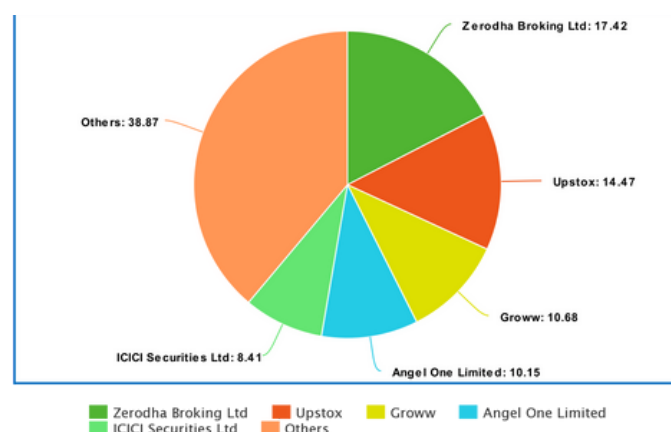
### MAJOR PLAYERS AND THEIR MARKET SHARE

- Zerodha Broking Ltd (17.42%)
- Upstox - RKSVM Securities India Pvt Ltd (14.47%)
- Groww - Nextbillion Technology Pvt Ltd (10.68%)
- Angel One Limited (10.15%)
- ICICI Securities Ltd (8.41%)

### REASONS FOR GROWTH

- **Aftermath of COVID-19:** With the decline in the interest rates for FDs due to the uncertainties brought by the pandemic, people started to look for new ways of investing which would ensure better returns.
- **Record-breaking performance of Stock Markets:** During those years offered a viable alternative for such investors. This led to a rise in demat accounts which further increased the usage of brokers to trade in the stock markets leading to a boom in the online stock brokerage industry.
- **Role of Technology and Digitalization:** The other major factor which led to an increase in this sector is the advancement in technology and digitalization which have given rise to immense user-friendly trading platforms and access to markets via mobile apps.

- **Fast-growing Economy:** Indian Economy has been growing at a rapid rate which has ultimately improved the stock market condition and increased the number of investors and brokers in the country.



### FUTURE

The equity broking industry is adapting very quickly to the changing customer behaviour and industry landscape. With a major focus on innovation, as well as efficiency, the future for this sector looks bright. Due to the rapidly growing economy and the rise in consumer awareness about the returns of the equity market, the road ahead looks clear. Education about investments is also a major force which affects the industry's future.

# ONLINE INSURANCE BROKERAGE INDUSTRY

## OVERVIEW

India's insurance industry is one of the most premium sectors experiencing upward growth. Insurance brokers act as mediators between an insurance company and their clients. They help their clients to buy insurance policies based on their financial status and needs and help the companies by selling their insurance plans. For this purpose, they charge a commission from both parties which are included in the insurance plan. Insurance Brokers act as bridges between both parties and provide utility to both- General Public and Insurance Companies.

## MAJOR PLAYERS

- Life Insurance Corporation of India
- HDFC Standard Life
- SBI Life Insurance
- ICICI Prudential Life Insurance
- United India Assurance Company Limited

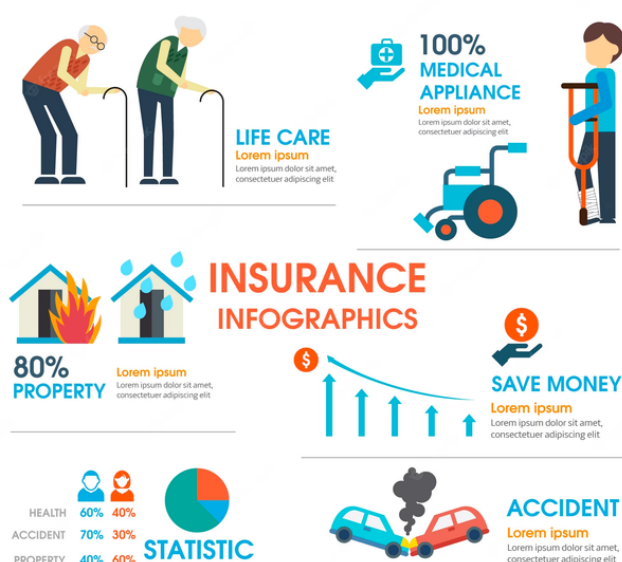
## REASONS FOR GROWTH

- **Technology and Innovation:** The insurance industry is growing rapidly in India due to improvements in technology. The usage of technology can help in simplifying processes and reducing TATs, thereby increasing customer confidence.
- **Insurance Awareness and Education:** With the increasing awareness and education about the insurance planning of families, there has been an increase in the number of people taking up insurance plans.

## FUTURE

The future of online life insurance brokerage looks promising as this industry is expected to grow at a rate of 14-15% annually for the next three to five years. Currently, more than 110 InsurTech Startups are operating in India which are expected to provide a major boost to the industry and help increase insurance penetration in India. Government-sponsored schemes

like Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) are further increasing insurance coverage to the needy at affordable prices. The growing middle class, young insurable population, increasing awareness about the need for insurance and protection, and other demographic factors will support the growth of the Indian Online Insurance Sector.



# ONLINE REAL ESTATE BROKERAGE INDUSTRY

## OVERVIEW

A real estate agency is a business that sells, rents, and manages houses and commercial properties as a service to its clients. Brokerage, here, refers to the activity focused on helping the buyers/sellers in buying/selling their property in exchange for some commission. With the advancements in technology and rapid digitalization, there has been a shift in consumer preference toward the online brokerage sector. These online brokers are much more advanced than neighbourhood brokers and provide analytics, management, marketing, branding services, etc.

## MAJOR PLAYERS

- 99acres.com
- Housing.com
- Square yards.com
- Makaan.com
- Magicbricks.com

## REASONS FOR GROWTH

- **Role of Technology:** The increase in users of online real estate brokerage services can be hinted at the fact that there has been rapid digitalization. Due to this, the buyers and sellers want to reduce the technicalities of the physical brokerage of real estate by using the online services provided by online brokers.
- **Rise in Financial Knowledge:** With the growth of the financial quotient of the country, people tend to invest in real estate. We can infer that there has been significant growth in this sector by the increased number of transactions taking place each day.
- **Easy Access:** The online marketplace for real estate offers faster access to any changes in zoning laws and other issues relating to the property so that an informed decision can be made..

- **Increased Urbanization:** Due to rapid modernization and increasing family pay, there has been a great rise in demand for real estate

## FUTURE

The development of real estate smartphone apps will continue to change all aspects of the real estate sale process. Investors are also likely to see the release of apps that calculate on blockchain technology to support the legal factors of a sale. These will concentrate on several areas, similar to transferring deeds or titles and participating in important documents. Blockchain networks serve to increase trust and reduce interposers when buying and dealing with real estate. Virtual reality is yet another technology that will impact the real estate world in the coming times. Though investors may be familiar with the idea of 3-D walkthroughs and 360-degree filmland, these coffers are anticipated to increase in fashionability. By giving implicit buyers a new way to witness homes, investors can increase the number of property viewings without the time and hassle.

# ZERODHA: A GAME-CHANGER FOR THE BULLS

## INTRODUCTION

Zerodha is an Indian financial services company that offers retail and institutional broking, mutual funds, and insurance services. It was founded in 2010 by Nitin Kamath, a technology entrepreneur, and his brother, Nikhil Kamath. The company is headquartered in Bengaluru, India and is one of the largest retail broking firms in India, with a customer base of over 2 million.

Zerodha's primary business is its online trading platform, which allows customers to trade in equities, derivatives, commodities, and currencies. The platform is user-friendly and offers a wide range of features such as real-time market data, advanced charting tools, and a user-friendly interface. Additionally, the platform offers a variety of research and analysis tools, as well as educational resources for traders and investors.

## BUSINESS MODEL OF ZERODHA

Zerodha's business model is built on providing low-cost, high-quality trading and investment services to its customers.

The company's core service is online trading in various financial instruments such as equities, derivatives, currencies, and commodities. Zerodha allows its customers to trade through its website and mobile application, which provides a user-friendly interface and advanced trading features. The company's platform is accessible to traders of all experience levels and provides a wide range of investment options.

Zerodha operates on a discount brokerage model, which means that it charges a low brokerage fee for each trade. The company's brokerage fee starts at a flat rate of Rs 20 per trade, which is significantly lower than the fees charged by traditional brokerage firms. This low-cost model allows Zerodha to attract a large number of customers, especially those who are new to trading and are looking for a more affordable option.

In addition to its low-cost brokerage services, Zerodha also offers other value-added services to its customers. These include research and analysis tools, online

education, and customer support. The company's research and analysis tools provide customers with real-time market information and insights, which can help them make more informed trading decisions. Zerodha's online education platform offers various courses and tutorials on trading and investment topics, which can help new traders understand the basics of the stock market.

Zerodha has also introduced several innovative features to its platform, such as the Zerodha Kite mobile application, which allows customers to trade on the go. The company has also launched a Zerodha Varsity platform, which is a free online education platform that provides a comprehensive understanding of markets and trading.

## COMPETITORS

Zerodha is one of the leading online stockbrokers in India, providing a wide range of financial products and services to its customers. However, it is not the only player in the market and faces competition from other major players in the industry. Some of the key competitors of Zerodha include Upstox, ICICI Direct, Sharekhan, Motilal Oswal, and Angel Broking. As the online stockbroking market continues to grow in India, competition among these players is likely to increase.

## CHANGING THE PECKING ORDER



## LEARNINGS FROM ZERODHA

One of the key lessons that can be learned from Zerodha is the importance of user-friendly technology. The platform offers a simple and easy-to-use interface that makes it easy for even novice investors to navigate and make trades. This is crucial for attracting and retaining customers, as many people may be intimidated by the complexity of traditional trading platforms.

Another important lesson from Zerodha is the importance of providing a wide range of investment options. The platform offers not only traditional stocks and mutual funds but also options trading, which allows for more advanced and potentially lucrative investment strategies. This diversification of investment options makes the platform more appealing to a wider range of investors and allows for more opportunities for growth and success.

### TOP 10 BROKERAGES IN TERMS OF ACTIVE CLIENTS ON NSE



Additionally, Zerodha is known for its low brokerage fees, which makes it an attractive option for cost-conscious investors. The company's "Zerodha 60" plan allows for unlimited trading with zero brokerage fees, making it one of the most cost-effective options on the market. This is important for attracting and retaining customers, as many people are looking for ways to save money on trading fees.

Another important lesson from Zerodha is the importance of providing educational resources for investors. The company offers a wide range of educational content, including videos, articles, and webinars, which help educate investors on different investment strategies, market trends, and other important topics. This helps to empower investors with the knowledge and skills they need to make informed investment decisions, which can ultimately lead to more successful investments.

Lastly, Zerodha is known for its excellent customer service. The company has a dedicated customer support team that is available to assist customers with any questions or concerns they may have. This helps to ensure that customers are satisfied with the platform and are more likely to continue using it for their investment needs.



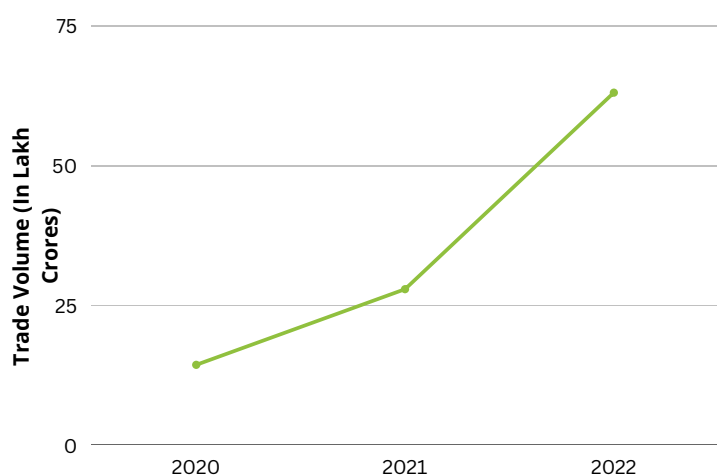
# BROKERAGE INDUSTRY GROWTH IN THE RETAIL SECTOR

## GROWTH OF THE BROKERAGE INDUSTRY FOR FY22

For the fiscal year 2021-22, the brokerage industry is expected to grow at a year-on-year (YoY) growth rate of more than 30 percent and clock a total revenue of Rs 27,000-28,000 crores, according to the Investment Information and Credit Rating Agency (ICRA) report released on 23 March 2022.

The high involvement of retail investors and the favourable systemic liquidity contributed to the continued growth over the past two years and the brokerage industry's record performance in FY2022. Following a favourable performance in FY2021, the domestic capital markets recorded a steady rise in transaction volumes in FY2022.

Due to the rise in the number of retail investors, there was a 179% increase in the trade volumes in the first 9 months of FY2022. From Rs. 27.92 lakh crore in FY2021 to Rs. 63.07 lakh crore in 9M FY2022, the average daily turnover climbed by 126%. (Rs 14.39 lakh crore in FY2020).



In addition to the higher trading volume, revenue increased because average investor investments increased over the course of the year.

For instance, among retail-focused brokerages, the average income per active client jumped from Rs 10,238 in FY2020 to Rs 12,788 in FY2021, recording an increase of 25%.

Positive market liquidity in both the domestic and international markets, higher-than-anticipated corporate results, a pick-up in economic activity, increased internet penetration, and solid involvement from retail investors all contributed to the market success.

## CONTRIBUTION OF COVID-19 TO THE GROWTH OF THIS INDUSTRY

Following the COVID-19 pandemic in March 2020, the Indian financial market had a surge in thousands of new investors, with the opening of demat accounts tripling between 2020 and 2021. Due to the COVID pandemic and the increased participation of retail investors, the equity market's average daily turnover more than doubled, from Rs. 14.4 lakh crore in Q3 FY2020 to Rs. 31.1 lakh crore in Q3 FY2021. Brokerage firms have reported a similar trend in client additions contributed by increased participation of new-to-market clients.

Investors looked for new investment opportunities with higher returns because of the pandemic's uncertainty and the fall in Fixed Deposit interest rates. A feasible alternative was presented by the equity market's record-breaking success in 2020 and 2021, which led to an increase in the number of demat accounts. Further, low fixed brokerage and user-friendly mobile apps from the COVID-19-led lockdown supported the continuous pace of aggressive client acquisition.

## ESTIMATED GROWTH OF THE INDUSTRY FOR FY23 CONSIDERING THE ICRA REPORT RELEASED IN MARCH AND DECEMBER 2022

According to the ICRA press release dated 23 March 2022, the growth of the brokerage industry in FY2023 would be moderate in comparison to its record performance in FY2022. With an anticipated industry total turnover of Rs. 28,500–29,000 crore in FY2023, the pace of revenue growth is anticipated to drop to 5-7%; however, as before, growth is still reliant on capital market performance and the maintenance of comparable yields to those observed in recent years.

According to the press release published in December 2022, ICRA predicts the brokerage industry's future to be stable. The overall performance will continue to be high in comparison to historical levels, even though the revenue growth rate is anticipated to decline in FY2023, after expanding sharply in each of the preceding two fiscals. ICRA predicts that the sector will generate gross operating income of between Rs. 37,700 and Rs. 38,700 crores in FY2023, representing an increase of 3-6% as opposed to a 33% growth in FY2022.

After reporting record performance in the previous two fiscal years, the domestic capital markets' performance moderated in the current fiscal year. The escalation of geopolitical tensions into conflict, supply chain disruptions due to pent-up demand, instability caused by different pathways of monetary policy normalization, and increase in crude oil prices have all had a significant impact on market mood.

## NEW DRIVER OF GROWTH

The online retail brokerage industry in emerging markets is evolving and growing quickly. The Covid-19 pandemic has accelerated demand for online services, creating a boon for companies with a strong digital platform. The growth of online retail investors in financial markets should provide positive benefits to both institutional investors as well as the broader market by deepening capital markets, potentially creating more liquidity, and providing more opportunities for stock selection.

## SHIFTING FROM SAVING TO INVESTING

Online retail trading is also seeing strong demand. Like Russia and Brazil, lower interest rates made making equity investing more appealing and accelerated the trend towards online trading as investors look for higher returns.

China has one of the world's highest savings rates at 46% of GDP.<sup>12</sup> Historically, Chinese households' savings were used to invest mainly in real estate. Only a fifth of household assets

were allocated to financial products and only 6% of those financial products are allocated to equities. However, that is quickly changing as rising incomes and growing middle-class households demand more investment options, fueling the rise of online trading platforms. Investable assets in households are expected to grow tremendously.

This year alone, there have been millions of new retail brokerage accounts opened in the first few months of the year. The majority of trading accounts are owned by retail investors, pointing to low barriers to growth. Rising demand from retail investors and the growth potential of online brokerage platforms has attracted homegrown tech giants. Looking forward, we believe that retail investors will likely continue to take advantage of low or zero-fee trading platforms, improving technology and growing investable assets which will deepen local equity markets.

## DIGITALIZATION



The Indian Financial services sector was dominated by traders, brokers, and middlemen who used to conduct transactions on paper. Today, the buzz of a trading floor has been replaced by the cool silence of computers that conduct trades. And the need to rush to banks for the smallest of transactions has been replaced by a few taps on our mobile devices. All of this has been possible due to the rapid digitization of the Indian finance industry.

The easiest way to see this impact is to see how IT companies are benefiting from it. Today, 40% of the revenues that Indian IT companies such as TCS and Cognizant make are from the BFSI segment. IT companies such as Infosys are creating Core banking solutions such as Finacle which are being used by one of India's largest public sector banks, Bank of Baroda. Another public sector bank, State Bank of India underwent rapid digitalization by offering SBI YONO, which was developed by IBM. SBI YONO currently has 54 million Monthly active users. There has been a rapid shift in the way consumers view payments due to apps like YONO. This has led to an increased volume of transactions, in turn benefiting the brokerages.

# GROWTH PROSPECTS OF THE ONLINE BROKERAGE INDUSTRY

## WORLDWIDE GROWTH OF THE ONLINE BROKERAGE INDUSTRY

According to the report, titled, "Online Trading Platform Market," (published by Allied Market Research), the online trading platform market was valued at \$8.9 billion in 2021, and is estimated to reach \$18.4 billion by 2031, growing at a CAGR of 7.8% from 2022 to 2031.

Post-COVID-19, the Online Trading Platform market size is estimated to grow from \$8943.0 million in 2021 to reach \$18,439.5 million by 2031, at a CAGR of 7.8%. The current estimation of 2031 is projected to be higher than pre-COVID-19 estimates.

## REASONS FOR GROWTH

The online trading platform market is influenced by factors such as an increase in the use of smartphones and internet access throughout the globe.

In addition, an increase in demand for customized Electronic Trading platforms from end users, such as government and non-profitable banks, is anticipated to drive demand for these solutions.

Technological advancements and the integration of trading platforms on smartphones are a few major factors expected to create various market opportunities for key players.

## INDIA'S GROWTH RATE IN THE INDUSTRY

The brokerage industry generated a revenue of INR 382.00 Bn in FY 2023, expanding at a compound annual growth rate (CAGR) of ~13.73% from FY 2019 to FY 2023. The industry gained popularity owing to a significant increase in trading activities.

The financial brokerage market operates through different business verticals, such as full-service, discount, and hybrid brokerage.

The full-service brokers' segment accounted for the largest share of the brokerage market in FY 2022, followed by discount brokers and hybrid brokers.

Some of the major players operating in the market are Angel Broking Limited, Geojit Financial Services Limited, ICICI Securities Limited, and Kotak Securities Limited.

In FY 2022, full-service brokers accounted for a significant share (46.23%) of the broking industry in India, followed by discount brokers (42.46%) and hybrid brokers (11.31%).

The shift of trading platforms from offline to a mix of online and offline modes resulted in higher revenues for full-service brokers. The increase in the activity in equity markets since the beginning of the pandemic was driven by robust corporate earnings, favourable liquidity in both international and domestic markets, higher internet penetration, and retail participation.

## REASONS FOR GROWTH

The decline in interest rates for FDs and uncertainties brought on by the pandemic sent investors looking for new avenues of investment that would offer better returns. The record-breaking performance of the equity market through 2020 and 2021 offered a viable alternative, leading to a significant surge in DEMAT accounts, especially for first-time investors.

In the post-COVID era, multiple technological advancements have brought smart features, such as e-KYC, order management systems, analytical and charting tools and much more, to ease the investment journey for retail traders.

With today's investors being immensely tech-savvy and expecting cutting-edge tech solutions for all their needs, brokers are increasingly investing in technology.

**TO SUMMARIZE, THE GROWTH OF THE GLOBAL ONLINE BROKERAGE INDUSTRY IS ACCREDITED TO THE FOLLOWING:**

- Highest Retail Participation
- Highest growth was seen in the opening of demat accounts (10.4 CR)
- Increase in Financial Literacy
- Diversification in portfolio
- Mass movement from the traditional way of investing to the new way with proper risk management
- Ease in investment options, technology is playing a big part - people can invest with just a click on the phone

# CONCLUSION

The online brokerage industry has undergone significant transformations throughout its history and has experienced remarkable growth in recent years. This report aimed to provide a detailed analysis of the industry, highlighting its historical background and exploring its future potential.

The history of the brokerage industry reveals the evolution from traditional, full-service brokerage firms to the emergence of online brokerages. The advent of the internet and technological advancements played a pivotal role in revolutionizing the industry. Online brokerages offered individuals greater accessibility, convenience, and lower costs compared to traditional brick-and-mortar brokerage firms. This shift led to the democratization of investing, as it allowed a broader segment of the population to participate in financial markets.

The increasing global internet penetration and smartphone adoption rates are expanding the potential customer base for online brokerages. As more individuals gain access to the internet and mobile devices, they are likely to seek out digital investment platforms for their financial needs. Furthermore, the rising popularity of passive investing and index funds has led to increased demand for low-cost, self-directed investment options. Online brokerages are well-positioned to cater to this demand by offering a wide range of investment products, including exchange-traded funds (ETFs) and no-fee trades. The ability to customize portfolios and access a diverse array of investment options through online platforms has further contributed to their appeal.

Additionally, the growing focus on financial literacy and the availability of educational resources on online brokerage platforms have empowered investors to make more informed decisions. By providing educational content, such as articles, videos, and tutorials, online brokerages are enabling individuals to enhance their knowledge about investing and develop their investment strategies. This trend is likely to continue as individuals seek to take control of their financial futures and achieve long-term wealth accumulation.

Moreover, advancements in financial technology, such as robo-advisors and artificial intelligence, have revolutionized the investment landscape. These technologies have made investing more accessible, efficient, and personalized. Robo-advisors, for instance, offer automated investment advice based on an individual's risk tolerance, financial goals, and time horizon. They have gained traction in the online brokerage industry due to their ability to provide low-cost, diversified portfolios tailored to individual needs.

However, despite the positive outlook for the online brokerage industry, challenges and risks exist. The industry is highly competitive, and online brokerages must continually innovate and differentiate themselves to attract and retain customers. Maintaining robust cybersecurity measures is crucial to protect client information and ensuring the integrity of the trading platforms. Additionally, regulatory compliance and adapting to evolving regulatory frameworks pose ongoing challenges for online brokerages.

In conclusion, the brokerage industry has come a long way since its inception, driven by technological advancements, changing investor preferences, and the desire for greater accessibility and control over investments. It has evolved from traditional brokerage firms to online platforms that provide investors with a wide range of tools, resources, and investment options. The growth prospects for the online brokerage industry are bright, as it continues to benefit from increasing internet penetration, technological innovations, and the demand for low-cost, self-directed investment solutions. By embracing innovation, prioritizing customer experience, and addressing regulatory challenges, online brokerages are poised to play a significant role in shaping the future of the financial services industry.

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