

DEEP DIVE IN DERIVATIVE MARKET: PERSPECTIVE OF YOUNG WOMEN OF RANCHI.

Shikha Poddar *

INTRODUCTION:

Derivatives are financial instruments that derive their value from an underlying asset or group of assets. These underlying assets can include stocks, bonds, commodities, currencies, interest rates, or market indices. The value of derivatives fluctuates based on market conditions, and their primary purpose is to enable investors to make substantial profits by anticipating the future value of the underlying asset. The derivatives market in India has evolved into a sophisticated financial marketplace where various derivative contracts are bought and sold. These instruments have reshaped financial markets, offered diverse risk management tools while introduced complexities that require careful oversight.

In India, the derivatives market is structured into two main segments: the exchange-traded market and the over-the-counter (OTC) market. The exchange traded market facilitates the trading of standardized contracts on regulated exchanges, while the OTC market allows for decentralized, direct negotiations between parties.

The Securities and Exchange Board of India (SEBI) plays a crucial role in regulating the derivatives market. SEBI establishes the regulatory framework governing derivatives in India, formulating rules, regulations, and guidelines for trading, clearing, and settlement of derivative contracts. This oversight ensures market integrity and protects investors' interests.

Ranchi district is the capital of Jharkhand and the study has been conducted on women who has given their positive as well futuristic view about derivative market especially Indian market and safety scenario discussing many social and family barriers along with financial freedom of decision making. Their dependency on their male counterparts, society or other persons had been highlighted along with security unawareness and lack of knowledge.

Participant Categories

The Indian derivatives market attracts a diverse set of participants, each with distinct motivations and strategies. These participants can be classified into four main categories: Hedgers: These risk-averse traders aim to secure their investment portfolios against market risk and price fluctuations. They typically assume opposite positions in the derivatives

* Research Scholar, University Department of Commerce and Bussiness Management, Ranchi University, Ranchi.

market to transfer risk to those willing to take it.

Speculators: These participants embrace risk to earn profits. They have contrasting viewpoints compared to hedgers, which can lead to substantial gains if their predictions are accurate.

Arbitrageurs: These traders capitalize on low-risk market imperfections to gain profits. They typically buy low-priced securities in one market and simultaneously sell them at a higher price in another market.

Market Makers: These participants provide liquidity to the market and facilitate smooth trading operations.

Derivative Contracts

The derivatives market offers various instruments to help these participants manage risk, enhance returns, and diversify their portfolios. The primary types of derivative contracts available in India include:

Futures: Standardized contracts that obligate parties to buy or sell an asset at an agreed price on a specified future date.

Forwards: Similar to futures but unstandardized and traded over-the-counter, allowing for customization to suit parties' requirements.

Options: Contracts that give buyers the right, but not the obligation, to buy or sell an asset at a predetermined price within a specified timeframe.

Swaps: Agreements between two parties to exchange cash flows based on a notional principal amount.

These instruments provide a range of tools for investors to hedge risk and speculate on price movements in the underlying assets. As the Indian economy continues to grow, the derivatives market is poised to play an increasingly significant role in the country's financial landscape.

REGULATORY FRAMEWORK GOVERNING DERIVATIVE MARKET

SEBI Regulations

The Securities and Exchange Board of India (SEBI) plays a pivotal role in regulating the derivatives market in India. SEBI has established a comprehensive regulatory framework to govern exchange-traded derivatives. This framework includes the SEBI (Stock Exchanges and Clearing Corporations) Regulations, 2018, and the SEBI (Intermediaries) Regulations, 2008. These regulations cover crucial aspects such as eligibility criteria for stock exchanges and clearing corporations, risk management requirements, and the obligations of intermediaries.

SEBI's regulatory approach aims to achieve specific, well-defined goals. It focuses on positive regulation designed to encourage healthy activity and behavior in the derivatives

market. The regulatory framework is guided by several key objectives, including investor protection, market integrity, and fostering innovation.

Exchange Guidelines

Stock exchanges in India, such as the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE), have issued their own guidelines and circulars to regulate the trading and settlement of derivatives contracts. These exchange-level guidelines cover various aspects, including:

- J Contract specifications
- J Trading mechanisms
- J Margin requirements
- J Position limits

The exchanges function as Self-Regulatory Organizations (SROs), with SEBI acting as the oversight regulator. This structure allows for a more efficient and responsive regulatory environment.

Risk Management Norms

Risk management is a critical aspect of the derivatives market, and both SEBI and the exchanges have put in place robust norms to mitigate risks. These norms include:

- J Initial and maintenance margin requirements
- J Position limits
- J Establishment of a robust clearing and settlement infrastructure

The clearing and settlement of all trades on the Derivative Exchange/Segment must be conducted through an independent Clearing Corporation/House. This separation ensures better risk management and transparency in the settlement process. A portfolio-based margining approach has been prescribed, which takes an integrated view of the risk involved in each individual client's portfolio. This approach considers positions in all derivative contracts, including Index Futures, Index Options, Stock Options, and Single Stock Futures. The initial margin requirements are based on the worst-case loss of a portfolio to cover 99% Value at Risk (VaR) over a specified time horizon. For Index futures and Index option contracts, the probable change in the price of the underlying is based on three standard deviations (3 σ) of the volatility estimate.

To enhance market stability, SEBI has implemented position limits at various levels:

- J Client/Customer level position limits
- J Trading Member level position limits
- J Market-wide limits

These comprehensive risk management norms aim to safeguard the market's integrity by minimizing the possibility of defaults and ensuring a stable trading environment for all

participants.

PRODUCT SPECTRUM IN DERIVATIVE MARKET

The Indian derivatives market offers a diverse range of financial instruments, catering to various investor needs and risk management strategies. This section explores the key categories of derivatives available in the Indian market.

Equity Derivatives

Equity derivatives have emerged as a significant success story in the Indian exchange-traded market. These financial instruments derive their value from underlying equity stocks or shares. The introduction of equity derivatives has revolutionized the Indian financial landscape, offering investors new ways to manage risk and enhance returns. Key equity derivative products include:

Index Futures: Introduced in June 2000, these contracts allow investors to speculate on the future value of stock market indices.

Index Options: Launched in June 2001, these instruments give investors the right, but not the obligation, to buy or sell an index at a predetermined price.

Stock Options and Futures: Introduced in July and November 2001 respectively, these contracts enable investors to trade on individual stocks.

As of 2005, the National Stock Exchange (NSE) offered futures and options on 118 individual stocks and 7 stock indices. These derivative contracts are settled through cash payment, eliminating the need for physical delivery of the underlying assets. They allow for hedging against potential losses in equity investments. Investors can gain exposure to large positions with a relatively small initial investment. Traders can profit from price differences between markets.

Currency Derivatives

Currency derivatives play a crucial role in managing foreign exchange risk for businesses and investors. While less active than interest rate derivatives, the currency derivatives market in India has shown steady growth. The most popular currency derivative instruments in India include:

Currency Forwards: These over-the-counter (OTC) contracts are widely used by importers, exporters, and banks to hedge foreign currency exposure.

Currency Swaps: These instruments allow for the exchange of cash flows in different currencies, helping businesses manage currency risk more effectively.

The Indian rupee forward market has seen increasing turnover and liquidity, although trading is primarily concentrated in shorter maturity contracts of one year or less.

Commodity Derivatives

The commodity derivatives market in India has experienced significant growth since

its introduction in 2000. These instruments allow investors to trade in various commodities, from precious metals to agricultural products. Key features of the Indian commodity derivatives market include:

Rapid Expansion: The number of commodities eligible for futures trading increased from 8 in 2000 to 80 in 2004.

Trading Volume Growth: The value of trading in commodity derivatives increased almost fourfold between 2000 and 2004.

Multiple Exchanges: India has several commodity exchanges, including:

Multi Commodity Exchange of India (MCX), Mumbai

National Commodity and Derivatives Exchange (NCDEX), Mumbai

National Multi Commodity Exchange (NMCE), Ahmedabad

Indian Commodity Exchange (ICEX), New Delhi

MCX, the largest commodity exchange in India, accounts for 86% of commodity trading in the country and is the world's largest exchange for silver and gold trading.

Despite its growth, the commodity derivatives market faces challenges such as fragmented trading across multiple venues and relatively small trading volumes compared to equity derivatives. However, the market continues to evolve, offering investors increasingly sophisticated tools for managing commodity price risk and enhancing portfolio diversification.

ROLE OF DERIVATIVE IN INDIAN ECONOMY

Corporate Risk Management

Derivatives play a crucial role in managing risk for corporations operating in India's dynamic economic landscape. These financial instruments provide an effective solution to the problem of risk caused by uncertainty and volatility in underlying assets. In the present highly uncertain business scenario, the importance of risk management is much greater than ever before. Corporations actively participate in the currency forwards and swaps markets, purchasing these instruments from banks to hedge their foreign exchange exposures. This allows companies to mitigate the risks associated with currency fluctuations, which have become more prevalent due to increased globalization and international trade. Derivatives enable traders to hedge pre-existing risks by taking positions in derivatives markets that offset potential losses in the underlying or spot market. This hedging capability is particularly valuable for companies dealing with commodities, as variations in agricultural and non-agricultural commodity prices are induced over time by demand-supply dynamics.

Financial Market Development

The emergence and growth of the derivatives market in India have contributed significantly to the development of the country's financial landscape. Since its inception in

June 2000, the derivatives market has exhibited exponential growth both in terms of volume and number of traded contracts. The market turnover has grown from Rs. 2,365 crores in 2000-2001 to Rs. 11,010,482.20 crore in 2008-2009, showcasing the rapid expansion of this sector. Within a short span of eight years, derivatives trading in India has surpassed the cash segment in terms of turnover and number of traded contracts. This growth has enhanced the depth and liquidity of Indian financial markets, providing investors with a wider range of tools for portfolio management and risk mitigation. The development of the derivatives market has also attracted speculators, who add considerable liquidity to the market and facilitate the positions that hedgers want to take. This increased liquidity contributes to more efficient price discovery and market stability.

Economic Indicators

The derivatives market serves as an important economic indicator, reflecting market expectations and providing valuable information for policymakers and investors. The notional amount outstanding in the over-the-counter (OTC) derivatives market worldwide exceeds \$640 trillion, with a collective gross market value of over \$27 trillion. This massive market size underscores the global importance of derivatives and their potential impact on economic trends. In India, the growth of the derivatives market has been particularly noteworthy. Several Indian exchanges rank among the world's top exchanges in terms of the number of derivatives contracts traded, although the figures are exaggerated by the small size of Indian contracts compared to major international exchanges. This growth in derivatives trading volumes can be seen as an indicator of increasing market sophistication and economic development. The derivatives market also provides insights into market sentiment and future expectations regarding various economic factors, such as interest rates, commodity prices, and currency exchange rates. This information can be valuable for policymakers in formulating economic strategies and for businesses in making informed decisions about investments and risk management.

CHALLENGES IN INDIAN DERIVATIVE MARKET

The Indian derivatives market has experienced significant growth and development over the years. However, it continues to face several challenges that impact its efficiency and potential for further expansion. These challenges include liquidity concerns, regulatory hurdles, and the need for better investor education.

Liquidity Concerns

One of the primary challenges in the Indian derivatives market is the issue of liquidity. The market has often been criticized for its lack of liquidity, particularly in the case of less popular contracts. This liquidity shortage can make it difficult for investors to enter and exit positions, leading to higher transaction costs and increased risk.

The liquidity risk in the Indian derivatives market refers to the possibility that an investor may not be able to exit a position quickly or at a fair price. However, it's worth noting that in the Indian securities markets, most actively traded derivatives contracts are short-term, which may mitigate this risk to some extent as the contracts will expire soon.

Regulatory Hurdles

The regulatory framework governing the Indian derivatives market is complex and can be challenging for market participants to navigate. The market is heavily regulated, with a web of rules and regulations that can create barriers to entry and limit the development of new products and trading strategies.

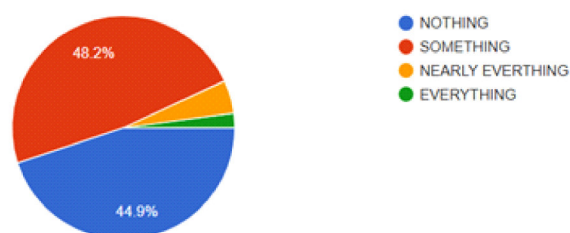
While regulation is essential for maintaining market integrity and protecting investors, overly stringent regulations can sometimes hinder market growth and innovation. Striking the right balance between regulatory oversight and market flexibility remains an ongoing challenge for Indian regulators.

Investor Education

A significant challenge facing the Indian derivatives market is the need for better investor education. Many Indian investors are still unfamiliar with the workings of the derivatives market, which can lead to a lack of participation and a reluctance to engage in these types of transaction. Improving investor education and awareness is crucial for the growth and development of the Indian derivatives market.

HOW MUCH YOU KNOW ABOUT DERIVATIVE MARKET.

334 responses



Investing or trading in equity derivatives is more complex than other financial products such as stocks and bonds. The complexity of derivatives can be a barrier for many potential investors. There's a need to break down these complexities into simple concepts to help investors understand and acquire the right skills for navigating the risky world of equity derivatives.

Operational Risks

Another challenge in the Indian derivatives market is operational risk. This refers to the risk of loss resulting from inadequate or failed internal processes, people, or systems,

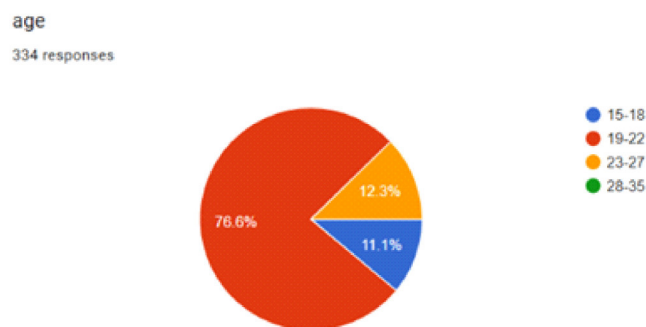
or from external events. While such instances could be rare, these incidents can lead to significant losses for investors who are unable to exit their positions in time.

Market Volatility and Speculation

The Indian derivatives market has seen a surge in activity, particularly in options trading. The notional value of index options traded more than doubled in 2023-24 to \$907.09 trillion from \$447.69 trillion a year ago. This rapid growth, fueled mainly by retail investors, has raised concerns about market stability and the potential for excessive speculation.

The ratio of the notional value of derivatives traded in India to traditional cash trading is 422 times, the world's highest. This high ratio of derivatives to cash market volumes is significantly higher than most other global economies, where derivatives volumes typically account for 5 to 15 times cash market volumes.

CASE STUDY OF YOUNG FEMALE OF RANCHI DISTRICT



Ranchi the capital of Jharkhand has been chosen for study and primary data had been collected from 300

young women about their thought on derivative market. These women have got the formal education and completed their intermediate study. The data presented is completely collected through survey and questionnaire has been circulated among respondents. The age of respondent is between 19-22 for majority of respondents and these are actively gaining education in their respective field. These women expressed about the economy and its drawback for derivative market.



Among these women only 58% respondent know about any such market. That is due to many reasons. They have given some insights about this.

Many of the respondents know only something about the derivative market. They have lack of knowledge and skill for these. 44.9% women respondent don't know anything about such market. They have clarified reason and solution for this problem and upliftment .

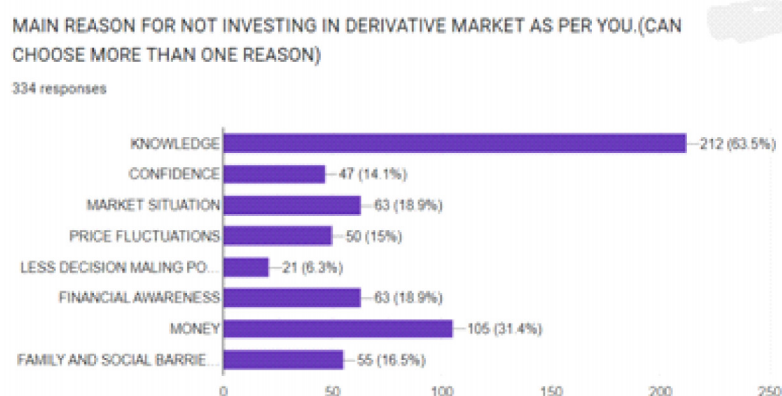


Figure 4 Reason for not investing in derivative market

As per collected data the main reason for any type of problems regarding investment in derivatives market is knowledge about that market and area. The low level of income and non-availability of money is also one of the major factor. Current market situation and fluctuation also being one of reason for this. Financial unawareness and lack of family support is also barrier for their investment habit.

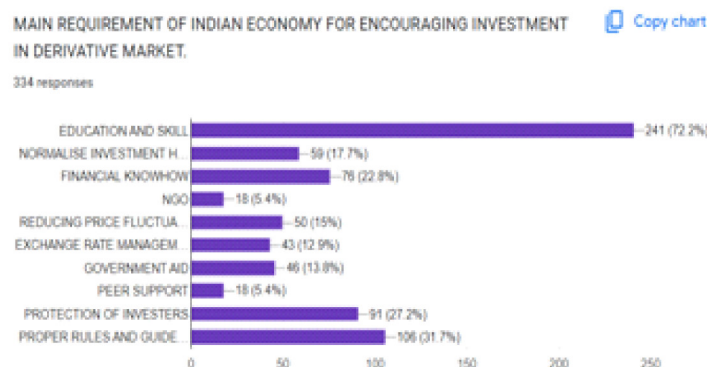


Figure 5 Solution for increasing investment of women.

All the analysis of study comes at conclusion with solution. And the respondents given such ideas to flourish derivative market through different measures. Above graph shows all solution for proper derivative market investment. These will lead to independent

financial decision making of women and will be a stone step for women empowerment.

CONCLUSION

This research paper provides a comprehensive deep dive into the perceptions and participation of young women from Ranchi in the derivative market, shedding light on the unique challenges, opportunities, and perspectives they face in this complex financial landscape. Through an in-depth analysis of data gathered from a diverse group of respondents, it has been found that while awareness about the derivative market is relatively low among young women in Ranchi, there is a growing interest in financial markets, driven by the increasing availability of educational resources and platforms for trading.

The study highlights several key barriers, such as a lack of financial literacy, societal stereotypes, and limited access to formal financial training, that hinder full participation. However, it also underscores the potential for empowerment through targeted education and support. As financial knowledge and confidence increase, young women in Ranchi demonstrate a keen interest in engaging with the derivative market, provided they are equipped with the right tools and guidance.

In conclusion, for greater inclusion and participation of young women in the derivative market, it is crucial to promote financial literacy programs, create supportive platforms for learning, and challenge traditional gender norms that limit their financial independence. By fostering an environment that encourages women's participation, the derivative market can become a more inclusive space that benefits from diverse perspectives and contributions. The future of young women in financial markets looks promising, provided that the necessary resources and opportunities are made accessible to them.

REFERENCE

1. Hull, J. C. (2017). Options, futures, and other derivatives (10th ed.). Pearson.
2. Mishkin, F. S., & Eakins, S. G. (2018). Financial markets and institutions (9th ed.). Pearson.
3. Helsinger, E. K. (1998). Women, work, and representation: Needlewomen in Victorian art and literature. University of North Carolina Press.
4. Visvanathan, N., Duggan, L., Nisonoff, L., & Wieggersma, N. (Eds.). (2011). The women, gender and development reader. Zed Books.
5. L. R. L., & S. J. L. (2015). Investing in women: A guide to economic empowerment. Routledge.
6. Gorman, E. H., & Raffaelli, R. (2015). Gender, social networks, and trading in financial markets. *American Journal of Sociology*, 121(1), 128-171. <https://doi.org/10.1086/679570>
7. Housel, M. (2017). The gender gap in financial literacy: Why women are

- underrepresented in financial markets. *Journal of Economic Perspectives*, 31(3), 56-75. <https://doi.org/10.1257/jep.31.3.56>
8. Jain, R., & Saini, S. (2019). A study on the participation of women in Indian stock markets: Opportunities and challenges. *International Journal of Management, Technology, and Social Sciences*, 4(2), 45-58. <https://doi.org/10.2139/ssrn.3368965>
 9. KPMG. (2020). Women in financial markets: A report on the barriers and opportunities. KPMG. <https://home.kpmg/xx/en/home/insights/2020/12/women-in-financial-markets.html>