

Investors preference between DEMAT& REMAT and Awareness regarding depository and its various laws

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I. THE DEPOSITORIES ACT

The Depositories Act, 1996, ushered in an era of efficient capital market infrastructure, improved investor protection, reduced risks and increased transparency of transactions in the securities market. It also immensely benefited the issuer companies, in terms of reduced costs and the effort expended in managing their shareholder populace. Perhaps, no other single act other than the Depositories Act has had such profound all round impact on every single stakeholder in the Indian capital markets. This legislation envisaged multiple depositories in India to ensure benefits of competition for the users of the depository system.

The Depositories Act which facilitated establishment of depositories (like CDSL) in India sought to effectively curb irregularities in the capital market, and protect the interests of the investors, and paved a way for an orderly conduct of the financial markets through free transferability of securities with speed, accuracy, transparency etc. Due to the introduction of the depository system, the investors are able to enjoy many benefits like free and instant transferability in a secured manner at lower costs, free from the problems like bad deliveries, odd-lots etc. Today the tradable lot is reduced to “one unit” hence even a common man is able to invest money in one equity share or bond or debenture. The investor is able to save a lot on account of stamp duty as government has exempted stamp duty on transfer of securities at present. Investors are also spared from the problems of preserving the securities held in physical form.

What is a Depository?

The Depositories Act defines a depository as “a company formed and registered under the Companies Act, 1956 and which has been granted a certificate of registration under subsection (1A) of section 12 of Securities and Exchange Board of India Act, 1992.” The main function of a depository is to dematerialize securities and enable their transactions in book entry form. As per The Bank for International Settlements (BIS), depository is “a facility for holding securities which enables securities transactions to be processed by book entry. Physical securities may be immobilized by the depository or securities may be dematerialized (so that they exist only as electronic records)”. In simple terms depository is an organization where securities of an investor are held in electronic form.

Depositories in India

There are 2 depositories in India

- The National Securities Depository Limited [NSDL]
- Central Depository for Securities Limited [CDSL]

II. RESEARCH METHODOLOGY

- **Sample size:** 50 respondents
- **Methods of research:** Primary and secondary method
- **Primary method:** I have collected information from respondents on the basis of questionnaire and detailed discussion with them regarding the problem.
- **Secondary method:** I have collected the information which is already available and the information collected from various websites, magazines and journals.
- **Area of research:** City of Ludhiana.

III. OBJECTIVES OF STUDY

- To know the reasons for investors preference between REMAT and DEMAT.
- To know the awareness of investors regarding depositories and its various laws.
- To know the satisfaction level of depository participants.
- To study the benefits/limitations of working of depository system.
- Factors affecting the decision making of investors towards depository system.

Tool of Analysis

In the project work quantitative technique, percentage method has been used.

IV. RESEARCH DESIGN

For the proper analysis of data simple quantitative technique such as percentage were used. It help in marketing more accurate generalization from the data available. The data which was collected from a sample of population was assumed to be representing entire population was interested.

V. FINDINGS

- ✓ Majority of respondents have demat a/c as compared to remat a/c and demat a/c is essential for trading by majority of investors.
- ✓ Majority of Investors are satisfied with demat a/c but 16% are not satisfied as they can have some problem with charges of demat a/c or may be its difficult for them to keep on maintaining demat a/c.
- ✓ Majority of respondents i.e 36% are indulged in trading from 5-10 yrs, 26% are indulged from 0-5 yrs and 24% are from 10-15 yrs. That means most of investors have experience from many years i.e 5-10 yrs.
- ✓ Majority of respondents contact DP every month to avail depository facilities and few of them never contact DP as they trade online or can be they donot trade and shares are in remat form. The another reason of not contacting DP can be not satisfied with working of their DP.
- ✓ Majority of respondents are aware of laws but they are not fully aware and don't have adequate knowledge of laws and 4% of respondents that dont have knowledge, reason can be they don't have experience or are not indulged in frequent trading and 14% respondents are fully aware as they can have adequate experience and are daily involved in trading.
- ✓ Majority think that demat a/c eliminated paperwork and made trading easy and reduced paper work as paper can be forged or any fraud can be done with paper work.
- ✓ Reason for disagreeing to statement that demat a/c leads to keep close watch on market players such as stock brokers is they donot have demat a/c or are not aware of services of demat a/c or they donot think depository as safe trading mode.
- ✓ Majority of respondents are satisfied with services of demat a/c as demat a/c is easy to use and helps in efficient trading.
- ✓ Majority have beneficiary account as they are owners account for trading in securities.
- ✓ Majority of respondents have securities in CDSL and 28% respondents in NSDL but both the depositories have same facilities but CDSL provides its choices of depository participants. If investors have both depositories then they do have inter depository slip to trade with both depositories.
- ✓ Majority of respondents says that demat a/c is safer and convenient form for trading and only few disagree with this as reason can be they don't avail demat services or actually they have some bad experience or not satisfied with charges of demat a/c.

VI. RECOMMENDATIONS

- Volume of paper work is small but it is very complicated to maintain data in system so try to reduce that by regular audit and updating data
- Most of DPs do not have the necessary infrastructure to handle the high workload of transactions lending to many errors by DPs, so by giving full infrastructure information to every DP can avoid this problem.
- The pool a/c does not know the true owner of the shares and hence dividends are paid to the broker instead of owners, by this broker can do any manipulations or any fraud with the owner, for this the owner can loose his dividend. Hence for this try to pay the dividend directly to the owner.
- If the shares are forged which delivered by the broker the shareholder can loose that system and have to receive another lot of issued shares from the broker in 21 days, this system stands abused as soon as possible.
- The online trading is easy to work but it is costly to maintain as the clients have to contact the DP's for the services and has to pay commission which can be costly for those who trade on daily basis.
- It is known that stock exchanges are conducting classes on the awareness of the depository system of NSDL and CDSL.
- Only the employees, brokers are aware about the services and system. But it is not known by public. Information about the classes must be given in news papers and media.

Limitations Of The Research Study

- Due to the lack of response, it was not possible to approach all the investors.
- It was also difficult to search investors having knowledge about trading and collect information from them.
- The respondents were asked to indicate their true responses to the questions being asked, but rather than giving the response, they might have been in a form of expert comments which might have biased the result of the study.
- The results of the study may not be universally applicable due to regional constraints.
- Questionnaires distributed were not received and were misplaced by the respondents so it took time to collect and approach all investors.
- Personal biasness may be included in the research work.

VII. CONCLUSION

The demat account opening is same as bank account, i.e. single or joint accounts or with nominee. Some amount has to be paid (i.e. 350/- per year+25) for the demat account. For each transaction the DP's may charge nearly Rs.30 + brokerage/commission is common.

The growth rates of demat account holder is increasing over years. The Indian system of capital market is a Two Tire System. Indian government allows holding securities in any form i.e. either in physical securities or in electronic (demat) form. The transaction of securities was complex.

The investors rarely utilize the Rematerialisation Request Form. Some of the Investors are not aware of the services offered by depositories.

Most of the respondents trade through broker pool account. Dematerialization process can be done through online trading by utilizing computers. The respondents feel that dematerialization provides enough services and its convenient to use.

If the people those who trade don't have enough knowledge about the facilities or services available, they take assistance from broker so as to eliminate the risk of loss.

So overall the depository is convenient and safer and majority of people are shifting towards dematerialisation as compared to the past history and study.

Investors with more experience have more knowledge of depository system and its laws but those indulged only few years before have little knowledge about it.

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