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Factors inspiring investors to open demat account: A study in Suler Taluk, Coimbatore district

A Saravanakumar and Dr. M Ganesan

Abstract

Demat account is short of “Dematerialised Account” – a paperless or digital form of buying and selling stocks and other financial instruments. Demat accounts have been made mandatory for trading in stocks in India. Any investor who wants to buy and sell shares to open a demat account. A demat account can be opened with any brokerage house such as Karvy Stock Broking Ltd, Religare Securities Ltd, Sharekhan by BNP Paribas Ltd, Axis Bank Securities Ltd, Motilal Oswal Securities Ltd, India Info Line Finance Ltd, IFCI financial services Ltd and many others. Every investor’s are differing from one another. All Investors are common when it comes to open demat account. Many factors are there to open a demat account; from this they can decide any one (or) more factors. Frequently asked question is: What are the factors inspiring investors’ to open demat account? The study is mainly focused on demat account holders in Suler Taluk, Coimbatore district. It is analysed with the help of Garrett ranking technique. There are so many variables inspiring the investors’ to open demat account which is offered by DPs to them. In our study the variables are: Securable and safety, Transferable speed, Requirements of formalities, etc., it was collected through the structured interview schedule.

Keywords: Depository, NSDL, CDSL

1. Introduction

In Indian capital market, has seen unprecedented boom in its activity in the last 20 years in terms of number of stock exchanges, listed companies, trade volumes, market intermediaries, investor population, etc., Government of India decided to set up a fully automated and high technology based model exchange that could offer screen based trading and depositories as the ultimate answer to all such reforms and eliminate various bottlenecks in the capital market, particularly, the clearing and settlement system in stock exchanges. Depository in a very simple term is a pool of pre-verified shares held in electronic mode which offers settlement of transactions in an efficient and effective way.

Depository is an institution which holds securities with it, in which trading is done among shares, debentures, commodities, mutual funds, derivatives, future and options. The intermediaries are depository participants and every depository participants need to be registered under any depository in India before they begin the operation in the market. In India, there are two depositories functioning for over a decade they are NSDL and CDSL. As the depository network expanded the NSDL and CDSL had been granted a certificate of commencement of business by SEBI. In the research, the study based on the factors inspiring to open demat account in depository participants. Until the late eighties, the common man kept away from capital market and thus the quantum of funds mobilized through the market was meager. A major problem, continued to plague the market. The Indian markets were drowned in shares in the form of paper and hence it was problematic to handle them. Fake and stolen shares, fake signatures and signature mismatch, duplication and mutilation of shares, transfer problems etc., the investors were scared and were under compensated for the risk borne by them. The century old system of trading and settlement requires handling of huge volumes of paper work. This has made the investors, both retail and institutional and also wary of entering the capital market. However, lack of modernization become a hindrance to growth and resulted in creation of cumbersome procedures and paper work. The investor to invest in the stock market and buy equity, we need three things. First, a bank account is necessary to draw money when we buy shares or receive money when we sell shares. Second, a trading account is required from where we sell and buy stocks online. Finally, we needed demat account which works as repository of shares bought and sold. The shares are in digital form.

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1.1 Depository System in India

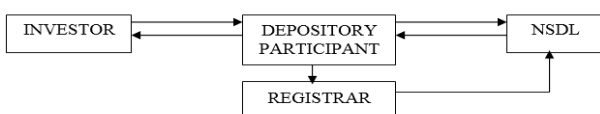
There are two depositories functioning in India, namely the National Securities Depository Limited (NSDL) and the Central Depository Services (India) Limited (CDSL). Under the provisions of the Depositories Act 1996, these Depositories provide various services to investors and other participants in the capital market such as Clearing Members, Stock Exchanges, Investment Institutions, Banks, and Issuing Corporates. National Securities Depository Limited (NSDL) was incorporated on December 12, 1995 and commenced its operations on November 8, 1996. Central Depository Services (India) Limited (CDSL) was granted certificate of commencement of business in February 1999 and commenced its operations on July 15, 1999. These two Depositories are registered with SEBI (Securities and Exchange Board of India) and SEBI lay down that a minimum net worth required for a Depository is Rs. 100 crores.

1.2 National Securities Depository Limited (NSDL)

NSDL is the primary electronic depository of securities in India that came into existence in the year August 1996, based in Mumbai, Maharashtra, the promotion of NSDL is done by the country's largest bank and institutions i.e. IDBI, UTI and NSE. Further, India's leading bank hold a stake in NSDL. NSDL operates in NSE. There are 267 depository participants as on 31.10.2017. There are more than 1, 62, 85, 274 active investors' accounts. There are around 27,809 services centre's covering 1940 cities and towns. Demat custody includes shares, debenture, bonds, commercial papers so on. Basic services provided by NSDL include account maintenance, settlement of trade, dematerialization, rematerialization. It also facilitates off market transfers and inter-depository transfers, pledge and s hypothecation of securities, stock lending and so on. Account wise, the active investor accounts in NSDL are comparatively higher than in CDSL.

The model for Dematerialisation process of NSDL

- Investors surrender certificates for Dematerialisation to depository participant
- Depository participant intimates NSDL of the request through the system
- Depository participants submit the certificates to the registrars
- Registrar confirms the dematerialisation request from NSDL
- NSDL updates its account and inform to the depository participant
- Depository participant update its accounts and inform to the investors
- The entire process of dematerialisation may take about 10 days



1.3 Central Depository Services (India) Limited (CDSL)

CDSL is a depository that holds securities in dematerialized form and facilitates trading and settlement of securities to be processed by book entry. It is the second largest central depository securities in India, situated in Mumbai, Maharashtra. The depository began its operations on

February 1999. It is promoted by BSE in association with prominent banks of the nation, state bank of India, union bank of India, bank of baroda, bank of India, standard chartered bank. CDSL operates in BSE. Securities available for demat includes equity, debentures, bonds, commercial papers, government securities, certificate of deposit, mutual funds and so on. The total number of investors accounts in CDSL over 1, 36, 24, 432 as on 30.9.2017. There are 589 depository participants as on 31.10.2017. There are 11 regional offices around in India and 17,338 service centre's covering all over India. DP wise, the DPs in CDSL are comparatively higher than in NSDL.

1.4 Role of Depository

The following are the various services performed by the depository:

- Dematerialization
- Account Transfer
- Transfer and Registration
- Dealing with Corporate Actions
- Pledge and Hypothecation
- Linkages with Clearing System
- Rematerialization

1.5 Evaluation of Depository

In depository system, the ownership and transfer of securities take place by means of electronic book entries. This system rids the capital market of the dangers related to handling the physical securities. The following are the various benefits of depository system:

- Elimination of Bad Deliveries
- Elimination of All Risks Associated With Physical Certificates
- No Stamp Duty
- Immediate Transfer and Registration of Securities
- Faster Settlement Cycle
- Buyers Are Secured
- Faster Disbursement of Non-Cash Corporate Benefits, etc.,

2. Statement of the Problem

An investor is a person they allocates capital with the expectation of a future financial return. There are various investments available such as: equity, debt securities, real estate, currency, commodity, token, derivatives such as call options, futures, forwards, etc., and an investor who owns a stock is a shareholder. The term "investor protection" is the entity of efforts, activities to observe, safeguard, enforce the rights and claims of a person in his role as an investor. The assumption of a need of protection is based on the experience that financial investors are usually structurally inferior to providers of financial services and products due to lack of professional knowledge, information or experience. Investor protection also includes fairness of the market which means all participants in the market have access to the same information. Every investor's are differing from one another. All Investors are common when it comes to open demat account. The most of investors are entering first time in share market, they also having some knowledge about the market and also the details of the demat account. The fee structure and the services providing to the investors and also giving proper advices about demat account and share market. Due to the advice of dp's we can earn number of new investors for share market. So, the

number of demat account holders increasing day by day because of dp's. In demat account; there is a primary connection with trading account and bank account. With this link we can get awareness about security, technology, trading, settlement etc.

DPs are identifying the most influencing factors on investors' behaviour, it would affect the required legislations and the additional procedures needed in order to satisfy investors' desires and also to give more support to market efficiency. In other words, many investors usually do not have adequate time, knowledge, expertise, experience and resources for directly accessing highly profitable avenues in capital and money markets. The study revealed fifteen factors primarily inspiring the investors to open demat account. The above are the problems faced by the investors in the absence of demat account. In this background, this study is focused to find out answers to the question. What are the factors inspiring investors' to open demat account?

3. Review of Literature

Dr. R. Ganapathi and Dr. T. Ramasamy (2007) ^[9] in his article, "A study on customers' expectations towards share brokers" stated that a stock exchange is an organization which provides a market place for trading shares, where investors may buy and sell shares. Only members of the stock exchange can perform the functioning of buying and selling of shares or stocks. He suggested that share brokers can collect minimum charge for opening an account. They can help the customers to open the account within 2 – 4 days. It will increase the customers' confidence level to invest a sizeable amount in the share market.

Dr. Dhiraj Jain and Preksha Mehta (2012) ^[10], in their study of the awareness about the services offered by the depository participants in Rajasthan. The research study was based on the main economic approach. The level of awareness about closing and termination of demat account was also moderate. The objective of the study is to examine the investors' opinion regarding charges on various services offered by the depository participants. In this study based on questionnaire method of data collection was used. Chi-square test and ANOVA were used to test the hypothesis have been framed and tested in the association between socio economic attributes and the awareness level of investors about services offered by the DPs. Finally concluded that the study about the investors, brokers and regulatory bodies as to what extents have the investors' education programme reached.

Manula. V (2013) ^[11], stated in his article on "Sociability and stock market participation: A sociological study of investors from bangalore". The purpose of this study is to shed more light to limited stock market participation which has been found to have many implications on both household level and public at large. There is a dearth of studies from the sociological perspective which takes social interaction into account for explaining stock market participation. She concluded that the drivers and barriers of stock market participation are complex, interrelated and can also stem from unexpected aspects of life.

Inderbir Kaur (2013) ^[12], stated in his article on "Investors Preference between Demat & Remat and awareness regarding depository and its various laws". The depository act defines a depository as a company formed and registered under the companies act", the main function of a depository is to dematerialize securities and enable their transactions in

book entry form. The objective of the study is to know the reasons for investors' preference between remat and demat and to know the satisfaction level of depository participants. In this quantitative technique, percentage method has been used. Overall the depository is convenient and safer and majority of people are shifting towards dematerialization as compared to the past history and study.

The article "A study of factors affecting stock price volatility: perception of stock brokers" by Dr. Romi Sainy (2016) ^[13], explained that the objective of investors is to earn optimum returns out of their investments however, expected rate of return differ depending on the market knowledge, risk perception of different factors and the risk taking ability of the individual investor. The study has used factor analysis to categorize the major influences of investment decisions of the stock brokers. A self-developed questionnaire was used for the purpose of the study. The five point likert scale which comprised of 40 items. The results suggests that economic environment, GDP and government policies, foreign trade and investments etc., are major factors affecting stock prices.

The article "A market potential of open the demat account and trading account for trading in stock exchange" by Melbha. D (2017) ^[14]. The study was undertaken with a well-structured questionnaire, duly filled by the respondents with varying importance, uses and in vestors perceptions. The objectives of the study is to analyse important of demat account and trading account and to evaluate market potential to opening demat and trading account. The study is a sample survey method. The 100 sample respondents were focused in thiruvananthapuram district, kerala through reputed stock brokers. The hypothesis tested between opening demat & trading account and the income from the investment. finally, he has concluded that the investors have many benefits like reducing trade cost, faster settlement, better portfolio management etc.,

4. Objectives of the Study

For conducting this study the specific objectives were set, to identify the factors inspiring investors' to open demat account.

5. Scope of the Present Study

This study has been under taken to know the "Factors Inspiring Investors' to open Demat Account: A Study in Suler Taluk, Coimbatore District". The scope of the study is extended to the related aspects viz., to identify the factors inspiring the investors to open demat account.

6. Research Methodology

6.1 Data Collection

The study is based entirely on the primary data. The required primary data for the present study was collected from 100 sample respondents by using interview schedule method.

6.2 Data Analysis

Garrett Ranking Score Analysis

6.3 Sample Size and Sampling Design

The sample size of the present study is 100. They were selected by applying convenience sampling technique. The selected respondents were contacted individually and the objectives of the study were clearly explained to them to ensure co-operation, sincerity and accuracy in their response.

7. Pilot Study and Pre-Testing

The pilot study is conducted with a sample of 10 investors’ during July 2017. In the pilot study, the interview schedule is pre-tested and then refined for use in the final study. This study helped in imparting upon the interview schedule and also gave an indication to the kind of responses that would be forthcoming with a few deletions and additions a final interview schedule is prepared.

8. Geographical Area of the Study

The area of the study is limited to Suler Taluk, Coimbatore District. Based upon the population level of Suler Taluk, Coimbatore District the data are collected.

9. Period of the Study

The primary data were collected from sample respondents through the interview schedule in Suler taluk during the period from July 2017 to December 2017.

10. Limitation of the Study

1. For collecting required data from sample respondents, interview schedule method of data collection has been used. The interview schedule method of data collection has its own limitations.
2. Statistical tools in Garrett ranking technique were used to analyse the data for the present study. These statistical tools have their own limitations.

11. Analysis and Interpretation

11.1 Factors Inspiring Investors’ to Open Demat Account

The factors inspiring the investors’ to open demat account are analyzed with the help of Garrett ranking analysis. Even though, there are so many variables inspiring the investors’ to open demat account offered by DPs to them, the opinion

of the investors’ on the various services such as: Securable and safety Transferable speed, Requirements of formalities, Account maintenance charges, Service provided by DPs/brokers, Account transparency, Periodical statement of handlings, Reliability, Processing time, Payment incase of sale of shares, No stamp duty on transfer of shares, Eliminate bad delivery and theft etc., Compulsory demat account, Transaction cost, Eliminate fake, forges shares etc., The data collected through a well-structured interview schedule.

11.2 Garrett Ranking Technique

To find out the most significant factors inspiring investors’ to open demat account. Garrett ranking technique was used. As per this method, respondents have been asked to assign the rank for all the factors and outcome of such ranking have been converted into score value with ‘the help of the following formula:

$$\text{Percent position} = \frac{100(R_{ij} - 0.5)}{N_j}$$

Where R_{ij} = Rank given for the i^{th} factor by the j^{th} respondents. N_j = Number of factors ranked by j^{th} respondents

By referring the Garrett table, the percent position estimated is converted into scores. Then for each factor the scores of each individual are added and then mean value is calculated. The types of factors available, which are ranked by the respondents, are presented in table 1 and 2.

Table 1: Factors Inspiring Investors’ to Open Demat Account: Garrett Ranking Analysis

Factors	Scale and Score Value of Ranks															
	Ranks	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	XIII	XIV	XV
	Scale Value (x)	85	75	69	64	60	56	53	50	46	43	39	35	30	24	14
I	F	25	13	8	10	9	4	4	5	5	6	1	1	3	2	4
	fx	2125	975	552	640	540	224	212	250	230	258	39	35	90	48	56
II	F	27	18	10	6	2	8	1	7	6	4	3	1	2	3	2
	Fx	2295	135	690	384	120	448	53	350	276	172	117	35	60	72	28
III	F	4	9	6	14	4	10	13	6	5	6	6	3	2	6	6
	fx	340	675	4140	896	240	560	689	300	230	258	234	105	60	144	84
IV	F	5	20	7	4	13	7	1	6	4	3	9	7	4	5	5
	fx	425	1500	483	256	780	392	53	300	184	129	351	245	120	120	70
V	F	11	5	12	7	7	3	11	6	7	5	5	6	6	2	7
	fx	935	375	828	448	420	168	603	300	322	215	195	210	180	48	98
VI	F	8	7	11	9	5	6	7	6	6	10	4	5	5	6	5
	fx	680	525	759	576	300	336	371	300	276	430	156	175	150	144	70
VII	F	5	3	7	6	4	9	11	7	8	4	9	8	3	10	6
	fx	425	225	483	384	240	504	603	350	368	172	351	280	90	240	84
VIII	F	5	8	9	8	8	6	10	6	8	11	7	5	5	3	1
	fx	425	600	621	512	480	336	530	300	368	473	273	175	150	72	14
IX	F	5	6	9	5	13	5	2	9	7	4	8	7	1	11	8
	fx	425	450	621	320	780	280	106	450	322	172	312	245	30	264	112
X	F	-	5	8	9	7	3	2	5	10	11	5	6	17	8	4
	fx	-	375	552	576	420	168	106	250	460	473	195	210	510	192	56
XI	F	1	1	1	5	6	4	10	4	6	12	9	14	7	7	13
	fx	85	75	69	320	360	224	530	200	276	516	351	490	210	168	182
XII	F	1	4	5	6	7	6	7	8	4	4	10	17	14	4	3
	fx	85	300	345	384	420	336	371	400	184	172	390	595	420	96	42
XIII	F	3	1	3	6	5	10	9	5	11	7	8	7	14	6	5
	fx	255	75	207	384	300	560	477	250	506	301	312	245	420	144	70
XIV	F	-	-	2	3	5	13	8	8	8	6	8	10	8	11	10
	fx	-	-	138	192	300	728	424	400	368	258	312	350	240	264	140
XV	F	-	-	2	2	5	6	4	12	5	7	8	3	9	16	21
	Fx	-	-	138	128	300	336	212	600	230	301	312	105	270	384	294
Total		100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: Primary Data Note: x= Scale Value, f= No. of Respondents, fx= Score Value

Table 2: Factors Inspiring Investors' to Open Demat Account: Garrett Ranking Analysis

S. No	Factors	Total Respondents (f)	Total Score (fx)	Means Score	Rank
1.	Securable and safety	100	6274	62.74	II
2.	Transferable speed	100	6450	64.50	I
3.	Requirements of formalities	100	5229	52.29	VII
4.	Account maintenance charges	100	5408	54.08	III
5.	Service provided by DPs/brokers	100	5325	53.25	V
6.	Account transparency	100	5248	52.48	VI
7.	Periodical statement of handlings	100	4779	47.79	IX
8.	Reliability	100	5329	53.29	IV
9.	Processing time	100	4889	48.89	VIII
10.	Payment in case of sale of shares	100	4543	45.43	X
11.	No stamp duty on transfer of shares	100	4056	40.56	XV
12.	Eliminate bad delivery and theft etc.,	100	4540	45.40	XI
13.	Compulsory demat account	100	4506	45.06	XII
14.	Eliminate fake, forges shares etc.,	100	4114	41.14	XIII
15	Transaction cost	100	3610	36.10	XIV

Source: Primary Data

11.3 Findings

The findings of the study can be useful guide to understand factors inspiring to open demat account. Table 2 reveals that the garrett ranking analysis of various factors inspiring the investors' to open demat account. From the above table 2, it is found that Transferable speed is ranked first, the second rank is given to the service of Securable and safety, third rank given to the services Account maintenance charges, the fourth rank given to the services Reliability, the fifth rank given to the services of Service provided by DPs/brokers, the sixth rank given to the services of Account transparency, the seventh rank given to the services of Requirements of formalities, the eighth rank is given to the services of Processing time, the ninth and tenth ranks are given to the services of Periodical statement of handlings and Payment incase of sale of shares, the eleventh and twelfth ranks are given to the services Eliminate bad delivery and theft etc., and Compulsory demat account, the respondents ranked the services of Eliminate fake, forges shares etc., and Transaction cost as thirteenth and fourteenth respectively. The last service of No stamp duty on transfer of shares is ranked as fifteenth.

12. Conclusion

Under the depository system, securities are stored in the depository accounts of investors akin to holding money in a bank account. In this system, transfer of ownership takes place by way of simple account transfer. The system has eliminated all the risks and inconvenience related to the physical certificate system. Moreover, the transaction cost in this system is relating lower than the previous system. It is much improved method over the scrip based system. This system is more flexible in the sense that it can be reconverted into Rematerialization from electronic process to ordinary certificates at the option of the security holders. It deals with even odd lots of securities. Indian investors are more conservative; they do not adopt any change easily. In this study an attempt is made to concluded that the factors inspiring investors to open demat account by using garrett ranking technique analysis, the results has been found that Transferable speed is first rank, Securable and safety is second rank and Account maintenance charges is third rank to open demat account offered by DPs.

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