

## **A MARKET POTENTIAL OF OPEN THE DEMAT ACCOUNT AND TRADING ACCOUNT FOR TRADING IN STOCK EXCHANGE**

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### **ABSTRACT**

In India, shares and securities are held electronically in a Dematerialized (or “Demat”) account, instead of the investor taking physical possession of certificates. A Dematerialized account is opened by the investor while registering with an investment broker (or sub-broker). The dematerialized account number is quoted for all transactions to enable electronic settlements of trades to take place. Research of this topic examines influences for open the demo account and trading account in trading in the stock exchange. Further, this study uses of demataccount, importances, investor’s perceptions act. The mainly data collected through web based analysis. The respondents were selected from the Thiruvananthapuram district through the selected stock brokers office. The study was undertaken with a well-structured questionnaire, duly filled by the respondents with varying importance, uses and investors' perceptions. The questionnaires were distributed online.

**KEYWORDS:** Demataccount, Trading account, Dematerialization, Stock Market, Online Trading, Portfolio Management

### **INTRODUCTION**

The stock markets in India have several reforms with the inception of SEBI. There have been guidelines issued for the protection of the investors. Reforms have been attempted in re-organization and administrative aspects of the stock exchange. Regulations have been made on broker dealings with investors. One major development is the prohibition on the insider trading. The SEBI is empowered to prosecute any company which does not comply with the act and the persons are liable to a penalty and fine or imprisonment if they violate the laws. The depository act was passed in 1996 allowing dematerializing of securities and the transfer of security through electronic book entry to help in reducing settlement risks and infrastructure bottlenecks.

Demoralization of securities is one of the major steps for improving and modernizing market and enhancing the level of investor protection through elimination of bad deliveries and forgery of shares and expediting the transfer of shares. Long term benefits were expected to accrue to the market through the removal of physical securities.

### **REVIEW LITERATURE**

Rev Bhatt & Bhatt (2012) in their paper entitled “Financial Performance Evaluation of depositories in India (A comparative study of NSDL & CDSL)” explores the fact that the trend of automation, especially, Dematerialization, has enabled the Indian capital market to take the world center stage & scale to unprecedented heights. The securities market in India has grown exponentially. The analysis of the progress of NSDL & CDSL in economic terms clearly reveals that both

the depositors have shown a remarkable progress in terms of DEMAT accounts; DEMAT value & quantity, Settlement value and quantity and the number of depository participants. Their study reveals that both the depositors have been working financially smoothly over a period of last six financial years.

Chaudhary&Malik (2011) in their paper “Depository system in India: An appraisal” states that majority of the participants are residing with NSDL with stake of 55 percent. Thus, it acts as the primary organization with the majority of participants in the system. Further the paper analysis concludes that the respondents have no clear & crisp idea regarding the services offered by the DPs to their clients. In order to overcome geographical & time barriers formal & informal communication need to be developed. The majority of respondents were comfortable with the prevailing fee structure of depository which shows the existing fee structure followed by NSDL is benevolent.

George (1996) in his article “Towards a paperless settlement system, ” explains about the role of the NSDL in revolutionizing the paperless stock settlement system in the country. He has examined steps taken by the depository to ensure that the scruples trading system is a success. He has also stressed the importance of the role of the regulatory body in making the depository system successful.

Jaunty (2007) in his research work “A study on the National Stock Exchange of India Limited” has highlighted that the NSE has created a niche for itself not only in the national arena but also in the international market with the adaptation of required structural changes. Therefore, there is no doubt that NSE will be an attractive destination for the nation & international investors to park their funds in the years to come.

Javaid (2003) in his thesis “ A study of the operations of stock exchanges with the special reference to Delhi Stock Exchange” discussed that Indian stock market has emerged as a major source of finance for the corporate sector. It is an institution evolved in the industrial developed capitalist economies with free market mechanism. The stock exchange was termed as institutional allocator of resources par excellence.

Kaur (2013) in her paper “Investors preference between DEMAT & REMAT and awareness regarding depository & its various laws” explains the depository system in India, focusing on the reasons for investors' preference between REMAT & DEMAT. To sum up, she concludes that the growth rates of DEMAT account holder are increasing over the years. The Indian system of capital market is a two tier system-Indian government allows holding securities in any form, i.e. either in physical securities or in electronic (DEMAT) form. The respondents feel that the demoralization provides enough services & it is convenient to use. The majority of people is shifting towards demoralization as compared to the past history & study.

Olekar&Talwar (2013) in their paper “Online trading & DEMAT account in India – Some issues” observed that the banks normally levy a lower service charges compared to other depository participants. He also found that when the numbers of users are more online, the speed of transactions is affected.

Rao (1995) in his paper “Depository System: A boon for India capital markets” holds the view that the introduction of depositors would improve the market efficiency. It is also expected to arrest the prolonged depression in the stock market. The paper analysis shows the manner in which the depository would help to revive the stock market.

To sum up, he states that the eligibility criteria will require companies to improve their internal systems. He is hopeful that depository system will bring a sea change in corporate democracy, particularly in corporate management, price discovery in market place & proxy exercise etc.

Sahoo (1995) in his article “ The depositories ordinance, 1995 explained” has explained the provisions of Depositories Ordinance 1995, which provides a legal basis for the establishment of depositories in securities with a view to ensure free & the expeditious transfer of securities.

Singh &Goyal ( 2011) in their paper entitled “ Analysis of factors affecting the Decision Making of the Investors in Depository System” holds the view that most of the investors think that the shorter settlement period, safety of securities with the depositories, attitude of the staff available with the DPs, timely services provided by the DPs to the investors, reduction in transaction costs, repatriation of sales proceeds of shares / debentures are some of the factors which affects the decision making of the investors in depository system. Opening DEMAT account with DP is easy but they charge for providing this service. The education of the investors plays an important role in decision making where the difference in the opinions of the investors views of literature:

### **OBJECTIVES OF STUDY**

- To study about demat account and trading account.
- To analysis important of demat account and trading account.
- To analysis investors’ perceptions towards opening demats and trading account.
- To evaluate market potential to opening demat and trading account.

### **SIGNIFICANT OF STUDY**

Since the present study has been designed to study on market potential for open the demat account and trading account in trading in stock exchange.. The main focus is to importance’s, uses, market potentials, investor’s perceptions ect to opening demat and trading accounts in trading in stock exchanges.

### **RESEARCH DESIGN**

The present study is a sample survey of selected respondents.. The respondents were selected from Thiruvananthapuram district through selected stock broker office.

#### **Source of Data**

The investigator convenience sampling to collect data from the respondents. The respondents were selected from Thiruvananthapuram district through selected stock blocker office

#### **Primary Data**

The primary data for gathering the answers was an online questionnaire, which was sent to selected sample via email invitation. 100 respondents for data collections.

#### **Secondary Data**

Secondary resource provide initial insight into the research problem and include both raw data and published summaries, sources, such as, articles, books, journals, etc. In this research secondary data was mainly collected from Google Scholar website (<http://scholar.google.com>) which provides so many articles and researches.

### Tools for Analysis

Percentage, hypothesis are used tools for data analysis

### NEED FOR A DEMAT ACCOUNT

Presently, it is compulsory to settle all trades done on any Stock exchange in DEMAT form only. SEBI has made compulsory trading of shares of all the companies listed in stock exchange in demat form w.e.f.2<sup>nd</sup> January 2002. Hence if an investor wants to trade in respect of the companies which have connectivity with NSDL & CDSL, it would require a demat opened with the DP of choice to hold shares in dematerialized form and to undertake scrip less trading

### BENEFITS OF HOLDING SECURITIES IN DEMAT FORM

- Faster transfer
- Elimination of bad deliveries
- Easy and enhanced liquidity
- No stamp duty
- Lower interest
- Nomination facility
- Low transaction cost.

### WHAT SHOULD AN INVESTOR DO TO OPEN AN ACCOUNT WITH STOCK BLOCKERS LIMITED DP (DEPOSITORY PARTICIPANT)?

- Opening a DEMAT account is very simple. It is similar to the opening of a bank account.
- An application form can be got from the CSBL DP and apart from submitting a completely filled application form to the CSBL DP the investor has to provide **a proof of identity and address (pan card, passport, ? ration card, etc).**
- Before the DEMAT account is opened the investor will have to execute an agreement on a stamp paper
- On opening an account a unique BO ID (Beneficial Owners Identification) is allotted which will be quoted in all future transactions.

One particular **DEMAT** account can have up to **three holders** (first holder, second holder, third holder).  
Account **holders can make nomination.**

## IMPORTANCE

In India, shares and securities are held electronically in a Dematerialized (or “Demat”) account, instead of the investor taking physical possession of certificates. A Dematerialized account is opened by the investor while registering with an investment broker (or sub-broker). The Dematerialized account number is quoted for all transactions to enable electronic settlements of trades to take place. Every shareholder will have a Dematerialized account for the purpose of transacting shares. Access to the Dematerialized account requires an internet password and a transaction password. Transfers or purchases of securities can then be initiated. Purchases and sales of securities on the Dematerialized account are automatically made once transactions are confirmed and completed.

## ADVANTAGES

- Number of demat account: There is no restrictions on the number of demat accounts that an investor can open.
- Minimum balance: There is no minimum balance required to be maintained in the demat account and an investor can maintain nil balance.
- Account statement: The investors is provided with a transaction statement by his Depository Participatory at regular intervals.
- Access to account details: The Depository Participatory can access only those investors accounts serviced by them.
- Bank account particulars: Details of the bank account of the Clint, including the 9 digit code number of the bank and branch appearing on the MICR Cheques issued by the bank have to be given to the Depository Participatory at the time of account opening.

## DISADVANTAGES

- Hazards of Bank accounts. The demat account has to be treated virtually like a bank account with the difference being that instated of actual cash there are shares in the account.
- Unauthorized transactions: In addition, one must always be watchful about the transaction that takes place in one’s demat accounts as that will give an indication of any transaction which might have taken place without the authorization and knowledge of the owner.
- DematCosts :Demat costs which are very important for an investor as it has a bearing on his overall portfolio returns. Demat costs, broadly could be segregated as initial and recurring charges.

## ANALYSIS AND DISCUSSIONS

**Table 1: Importance's of Opening Demat and Trading Accounts**

|   | Particulars   | Percentage |
|---|---|------------|
| 1 | Elimination of bad deliveries   | 20         |
| 2 | Effects immediate transfer  | 23         |
| 3 | No stamp duty   | 15         |
| 4 | comparing and monitoring current position   | 12         |
| 5 | Elimination of risks loss and fake certificate  | 19         |
| 6 | Automatic credit into demat a/c of shares, arising out of bonus, split, consolidation, mergerect. | 11         |
|   |   | <b>100</b> |

This table exhibited that opening thademat and trading account is very important for effects immediate transfer of their securities because each investors have Identified. secondly elimination of bad delivery, thirdly elimination of risks loss and fake certificate, lastly Actomatic credit in to demat A/C of shares, arising out of bouns, split, merger ect.

**Table 2: Uses of Company in Opening Demat and Trading Account**

|              | Particulars                          | Percentage |
|--------------|--------------------------------------|------------|
| 1            | No need of issuing share certificate | 24         |
| 2            | Reduces the changes of fraud         | 25         |
| 3            | Reduce the cost of handling          | 23         |
| 4            | Better communication of each members | 28         |
| <b>Total</b> |                                      | <b>100</b> |

This table shows that once the investors opening demat and trading account mainly benefit for their company. Firstly company have better communication of each members, secondly reduces the charges of fraud, lastly reduce the cost of handlyect.

**Table 3: Investors Perceptions towards Opening Demat and Trading Account**

|              | Particulars   | Percentage |
|--------------|---|------------|
| 1            | Comparing and monitoring current position                       | 19         |
| 2            | Elimination of risks loss and fake certificate                  | 15         |
| 3            | Peper less trading  | 17         |
| 4            | Reduce trading costs  | 21         |
| 5            | Provides liquidity in the matter of settlement of transactions. | 16         |
| 6            | Better portfolio selection                                      | 12         |
| <b>Total</b> |   | <b>100</b> |

This table shows that, Investors perceptions towards opening demat and trading account. Investors have somany

benefits firstly reduce trading costs, secondly comparing and monitoring current position, thirdly paper less trading, lastly better portfolio etc

**Table 4: Do you Manage settlement Risk Management?**

|              | Particulars | Percentage |
|--------------|-------------|------------|
| 1            | Yes         | 75         |
| 2            | No          | 25         |
| <b>Total</b> |             | <b>100</b> |

This table exhibit that majority investors opening demat and trading account help for risk management, only 15% of investors saws not use for risk management.

**Table 5: Do you Select the Better Portfolio of Securities?**

|              | Particulars | Percentage |
|--------------|-------------|------------|
| 1            | Yes         | 85         |
| 2            | No          | 15         |
| <b>Total</b> |             | <b>100</b> |

This table present that majority of investors confirm once the opening demat and trading account is help full for better portfolio selections and only 25% percentages investors saws not use for this.

## **HYPOTHESIS**

- H0. There is no relationship between Opening demat and trading account and income from the investment.

### **Decision Rule**

Since the computed value of (15.37) is greater than the tabular value of (12.6), null hypothesis shall be rejected. This show that Opening demat and trading account is use for investors to accepted regular income from the investment. Their accounts are use avoid fraud.

- H0. There is no relationship between Opening demat and trading account and settlement risk management

### **Decision Rule**

Since the computed value of (26.45) is greater than the tabulated value of (21.0), H0 (null) hypothesis shall be rejected This shows that Opening demat and trading accounts investors to know income from their investment and progress. So investors to manage the risks like decline evident, bad delivery of share ect.

- H0. There is no relationship between Opening demat and trading account and portfolio management.

Since the computed value of (28.54) is greater than the tabular, value of (21.0), null hypothesis (H0) shall be rejected. This reveals that ineffective leadership and poor corporate governance has been an obstacle to the development of small and medium scale entrepreneurs. Having tested the formulated hypothesis, it was proved from once the opening the demat and trading account investors to identified the income from their investment and to desired to continues the investment or select another. So help the investors to select the portfolios.

## **DISCUSIONS**

The trading on stock exchanges in India used to take place through open outcry without use of information technology for immediate matching or recording of trades. This was time consuming and inefficient. This imposed limits on trading volumes and efficiency. In order to provide efficiency, liquidity and transparency, NSE introduced a nation-wide on-line fully automated screen based trading system where a member can punch into the computer quantities of securities and the prices at which he likes to transact and the transaction is executed as soon as it finds matching sale or buy order from a counter party. Screen based electronic system electronically matches orders on a strict price/time priority and hence cuts down on time, cost and risk of error, as well as on fraud resulting in improved operational efficiency. It allows faster incorporation of price sensitive information into prevailing prices, thus increasing the informational efficiency of markets. Today India can boast that almost 100% trading take place through electronic order matching. In order to promote dematerialization of securities, NSE joined hands with leading financial institutions to establish the national securities depository Ltd. (NSDL), the first depository in the country, with the objective of enhancing the efficiency in settlement systems as also to reduce the menace of fake/forged and stolen securities. This has ushered in an era of dematerialized trading and settlement. SEBI has made dematerialized settlement mandatory in an ever -increasing number of securities in a phased manner, thus bringing about an increase in the proportion of shares delivered in dematerialized form. There is an increasing preference to settle trades, particularly in high value securities, in demat form. Such high level of demat settlement reassures success of rolling settlement.

## CONCLUSIONS

This research represents one of the very few empirical studies into a phenomenon of great managerial and academic interest. Clearly, though, a number of recommendations are deserved to qualify these research findings and to encourage future research efforts. It concluded that the depositories transfer securities transfer securities through online. There is no physical handling of shares. The main important of opening demat and trading account is effects immediate transfer of their securities because each investors have Identified. Once the investors opening demat and trading account mainly benefit for their company because company have better communication of each members. Investors have so many benefits like reduce trading costs, quick settlement, betterpotfolio management ect.

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