



A STUDY ON INVESTORS' PERCEPTIONS TOWARDS DEMATERIALISATION AND INDIAN DEPOSITORY SYSTEM WITH REFERENCE TO KRISHNA AND GUNTUR DISTRICTS OF A.P.

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ABSTRACT

Depository is an institution or a kind of organization which holds securities with it, in which trading is done among shares, debentures, mutual funds, derivatives, F&O and commodities. A depository holds shares, debentures, bonds and units etc of an investor in electronic form and offers their transactional services towards selling and buying of shares/stocks in stock market also in a transparent manner. In September, 1995 the Government have accepted in principle the proposed law for settling up of depositories and of a central depository for immobilization of physical certificates. The central depository is to be set up as trust to hold the physical custody of shares and effect transfers by book entries without the need to deal and transfer the physical certificates between parties. The present study is an attempt to explore about dematerialization, depositories and to know the investors perceptions towards of Dematerialisation and Indian Depository System with reference to Guntur and Krishna Districts of Andhra Pradesh, India through a survey. On the basis of results, it is concluded that the statements related to awareness, opinions, feelings and perceptions of DEMAT A/c holders are dependent.

KEY WORDS: Depository, Physical Certificates, Depository System, DEMAT Account Holders, Central Depository.

INTRODUCTION

The capital market provides a means for issuers to raise capital from investors. Capital market is a medium for mobilizing the finance out of the savings of the community and making it available to the users i.e.

to the industry, trade, commerce for meeting their funds requirement. Dematerialisation is the process by which physical certificates of an investor are converted to an equivalent number of securities in electronic form and credited in the investor's account with his Depository

Participants (DPs). Dematerialisation is the foundation of concurrent changes in the capital market in India. The depository is an organization where the securities of a shareholder are held in the form of electronic accounts, in the same way as a bank holds money. A depository interfaces with its investors through its agents called DPs. According to SEBI guidelines, financial institutions, banks, custodians, stock brokers, etc. can become DPs. If an investor wants to utilize the services offered by a depository, he has to open an account with a DP. The main objective of a depository is to reduce settlement risk by minimizing the paperwork involved in trading, settlement and transfer of securities. The principal function of depository is to dematerialize securities and enable their transactions in book-entry form. The securities are transferred by debiting the transferor's depository account and crediting the transferee's depository account. At present two Depository Organisations are working in India - National Securities Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL).

OBJECTIVES OF THE STUDY

- ♦ To know about dematerialization in Indian Capital Market.
- ♦ To know about benefits of depositories in Indian Capital Market.
- ♦ To analyze the awareness and opinions of different DEMAT account holders on Indian Depository system.
- ♦ To analyze the feelings and perceptions of different DEMAT account holders on Indian Depository system.

METHODOLOGY OF THE STUDY

In order to achieve the objectives stated above data and information have been collected from both the primary and secondary sources. The primary data have been collected through structured questionnaire to DEMAT A/c holders. Secondary data have been collected from depositories websites, books, journals, magazines, etc.

Sampling

A sample of 484 DEMAT A/c holders in urban and semiurban areas are taken for the study to know the awareness, opinions, feelings and perceptions on Indian Depository System. Two districts Guntur and Krishna are covered for the study. The places covered are Guntur, Mangalagiri, Tenali, Bapatla, Narasaraopet, Vijayawada, Gudivada and Machilipatnam. The data and information collected through questionnaire are properly analysed and inferred.

Statistical Tools Used

The data is analyzed based on the Chi-Square Test.

DEMATERIALIZATION IN INDIAN CAPITAL MARKET

Dematerialisation is the process by which the certificates of an investor available in physical form are converted into an equivalent number of securities in electronic form and credited in the investor's account with his DP. Dematerialised shares do not have any distinctive numbers. These shares are fungible, which means that all the holdings of a particular security will be identical and interchangeable. Conversion of securities from physical (paper) form to electronic form can be achieved by two methods Dematerialization and Immobilization. Under the dematerialization method, the securities issued in physical form are destroyed and exactly equal numbers of securities are created in the depository system, which are credited into the account of the investor. Unlike physical securities, the securities converted into the electronic form do not have any distinctive numbers and they are treated as equal and replaceable in all ways i.e. securities in the electronic form are fungible. All subsequent transactions (transfer of ownership) of such securities take place in book- entry form. Under the immobilization method, after giving credit in the securities in physical form are stored or lodged with an organization, which acts as a custodian - a securities depository. Subsequent transactions in such immobilized securities take place through book - entries. The securities are held by the depository in a physical form in its own vaults, but the transfer of securities takes place; through book entries. India has adopted dematerialization method where as immobilization method has been adopted by some of the countries like Hong Kong, USA, Japan. Japan has adopted both dematerialization as well as immobilization for achieving a paperless securities market. Whether a country has adopted dematerialization or immobilization, the investor has a right to get the securities converted back into physical form through a process called as rematerialization, in case of need. Depository system is concerned with conversion of securities, from physical to electronic form, settlements of trades in electronic segment transfer of ownership of shares and electronic custody of securities. All securities to the depositories are identical in all respects and one thus fungible.

BENEFITS OF DEPOSITORIES IN INDIAN CAPITAL MARKET

At present there are two Depository Organisations working in India - National Securities Depository Limited (NSDL) and Central Depository Services

(India) Limited (CDSL). The benefits of depositories in Indian Capital Market are as follows:

- ✧ Elimination of bad deliveries
- ✧ Elimination of all risks associated with physical certificates
- ✧ No stamp duty
- ✧ Immediate transfer and registration of securities
- ✧ Faster settlement cycle
- ✧ Faster disbursement of non cash corporate benefits like rights, bonus, etc.
- ✧ Reduction in brokerage by many brokers for trading in dematerialized securities
- ✧ Reduction in handling of huge volumes of paper
- ✧ Periodic status reports
- ✧ Elimination of problems related to change of address of investor
- ✧ Elimination of problems related to transmission of demat shares
- ✧ Elimination of problems related to selling securities on behalf of a minor
- ✧ Ease in portfolio monitoring

DATA ANALYSIS

Table No. 1: Awareness level of DEMAT Account holders on Capital Market, Depository System, Depositories and Depository Participants.

Statements	Extremely Aware	Highly Aware	Aware	Somewhat Aware	Not Aware	Total
1. Awareness level about Capital Markets	156	134	107	55	32	484
2. Awareness level about Depository System	186	124	102	45	27	484
3. Awareness level about the services of Depositories	116	114	112	85	57	484
4. Awareness level about Depository Participants (DPs) Services	136	104	102	95	47	484
Total	594	476	423	280	163	1936

H_0 : Awareness level of DEMAT A/c holders on different statements in the contingency table are independent.

H_1 : Awareness level of DEMAT A/c holders on different statements in the contingency table are dependent.

Level of Significance: Appropriate level of significance is 5%

Statements * Awareness Cross tabulation								
Statements		Frequency	Awareness					Total
			1	2	3	4	5	
			1	Observed	156	134	107	55
Expected	148.5			119.0	105.8	70.0	40.8	
2	Observed		186	124	102	45	27	484
	Expected		148.5	119.0	105.8	70.0	40.8	
3	Observed		116	114	112	85	57	484
	Expected		148.5	119.0	105.8	70.0	40.8	
4	Observed		136	104	102	95	47	484
	Expected		148.5	119.0	105.8	70.0	40.8	
Total			594	476	423	280	163	1936

Test Criterion:

$$\chi_{cal}^2 = \frac{(O-E)^2}{E} \sim \chi_{(r-1)(c-1)}^2 \text{ at } \alpha\% \text{ Level of significance}$$

$$\chi_{cal}^2 = 61.108$$

Inference:

The $\chi_{table\ value}^2$ at 5% level of significance for 12 degrees of freedom $[(r-1)(c-1) = (4-1) \times (5-1) = 12]$ is 21.026

Here, χ_{cal}^2 is greater than $\chi_{table\ value}^2$

So, we reject H_0

Hence we conclude that awareness level of DEMAT A/c holders on different statements in the contingency table are dependent.

**Table No. 2: Opinions of DEMAT A/c holders on Depository System;
DEMAT Accounts, Depositories and Depository Participants**

Statements	Excellent	Very Good	Good	Satisfactory	Poor	Total
1. Opinion about Depository system	136	184	77	60	27	484
2. Opinion about Depository Participants (DPs) Services	123	145	93	52	71	484
3. View about the service charges levied for operating DEMAT	113	135	105	33	98	484
4. Observation about the services offered by depositories	133	125	115	73	38	484
5. Level of satisfaction about the fee structure of depository system	103	115	95	103	68	484
Total	608	704	485	321	302	2420

H_0 : Opinions of DEMAT A/c holders on different statements in the contingency table are independent.

H_1 : Opinions of DEMAT A/c holders on different statements in the contingency table are dependent.

Level of Significance: Appropriate level of significance is 5%

Statements * Opinions Cross tabulation								
Statements		Frequency	Opinions					Total
			1	2	3	4	5	
		1	Observed	136	184	77	60	27
Expected	121.6		140.8	97.0	64.2	60.4		
2	Observed	123	145	93	52	71	484	
	Expected	121.6	140.8	97.0	64.2	60.4		
3	Observed	113	135	105	33	98	484	
	Expected	121.6	140.8	97.0	64.2	60.4		
4	Observed	133	125	115	73	38	484	
	Expected	121.6	140.8	97.0	64.2	60.4		
5	Observed	103	115	95	103	68	484	
	Expected	121.6	140.8	97.0	64.2	60.4		
Total		608	704	485	321	302	2420	

Test Criterion:

$$\chi_{cal}^2 = \frac{(O-E)^2}{E} \sim \chi_{(r-1)(c-1)}^2 \text{ at } \alpha\% \text{ Level of significance}$$

$$\chi_{cal}^2 = 130.1$$

Inference:

The $\chi_{table\ value}^2$ at 5% level of significance for 16 degrees of freedom [(r-1) (c-1) = (5-1) x (5-1) = 16] is 26.296

Here, χ_{cal}^2 is greater than $\chi_{table\ value}^2$

So, we reject H_0

Hence we conclude that opinions of DEMAT A/c holders on different statements in the contingency table are dependent.

Table No. 3: Satisfaction levels of DEMAT A/c holders on Depository System, DEMAT Accounts, Depositories and Depository Participants

Statements	Highly Satisfied	Satisfied	Moderately Satisfied	Dissatisfied	Highly Dissatisfied	Total
1. Overall satisfaction level about the services of Depositories	183	135	105	43	18	484
2. Feel about securities trading through DEMAT	163	145	125	40	11	484
3. Level of satisfaction about receiving of regular statements of DEMAT account	143	165	115	51	10	484
4. Level of satisfaction about the annual charges of selected trading company	133	175	105	59	12	484
Total	622	620	450	193	51	1936

H_0 : Satisfaction levels of DEMAT A/c holders on different statements in the contingency table are independent.

H_1 : Satisfaction levels of DEMAT A/c holders on different statements in the contingency table are dependent.

Level of Significance: Appropriate level of significance is 5%

Statements * Satisfaction Level Cross tabulation								
Statements		Frequency	Satisfaction Level					Total
			1	2	3	4	5	
			1	Observed	183	135	105	
	Expected	155.5	155.0	112.5	48.2	12.8		
2	Observed	163	145	125	40	11	484	
	Expected	155.5	155.0	112.5	48.2	12.8		
3	Observed	143	165	115	51	10	484	
	Expected	155.5	155.0	112.5	48.2	12.8		
4	Observed	133	175	105	59	12	484	
	Expected	155.5	155.0	112.5	48.2	12.8		
Total			622	620	450	193	51	1936

Test Criterion:

$$\chi_{cal}^2 = \frac{(O-E)^2}{E} \sim \chi_{(r-1)(c-1)}^2 \text{ at } \alpha\% \text{ Level of significance}$$

$$\chi_{cal}^2 = 25.954$$

Inference:

The χ_{table}^2 value at 5% level of significance for 12 degrees of freedom [(r-1) (c-1) = (4-1) x (5-1) = 12] is 21.026

Here, χ_{cal}^2 is greater than χ_{table}^2 value

So, we reject H_0

Hence we conclude that satisfaction levels of DEMAT A/c holders on different statements in the contingency table are dependent.

Table No. 4: Awareness level regarding different functions and services provided by Depository System.

S.No.	Functions and Services Provided by Depository System	Extremely Aware	Highly Aware	Aware	Somewhat Aware	Not Aware	Total
1	Knowledge About NSDL or CDSL	82	194	179	24	5	484
2	Knowledge about Depositories Act 1996	24	92	232	58	78	484
3	Procedure of Account Opening	97	179	169	29	10	484
4	Nomination Facility	73	155	198	44	14	484
5	International Security Identification Number (ISIN)	39	58	237	97	53	484
6	Transaction Statement of DEMAT Account	97	198	155	34	0	484
7	Lending and Borrowing of DEMAT Securities	29	155	247	34	19	484
8	Freezing of DEMAT Account	39	155	174	73	43	484
9	Rematerialization of DEMAT Securities	39	160	203	43	39	484
Total		519	1346	1794	436	261	4356

H₀: Awareness level of DEMAT A/c holders on functions and services provided by Depository System in the contingency table are independent.

H₁: Awareness level of DEMAT A/c holders on functions and services provided by Depository System in the contingency table are dependent.

Level of Significance: Appropriate level of significance is 5%

Functions & Services * Awareness Cross tabulation							
	Frequency	Awareness					Total
		1	2	3	4	5	
Functions and Services	1 Observed	82	194	179	24	5	484
	1 Expected	57.7	149.6	199.3	48.4	29.0	
	2 Observed	24	92	232	58	78	484
	2 Expected	57.7	149.6	199.3	48.4	29.0	
	3 Observed	97	179	169	29	10	484
	3 Expected	57.7	149.6	199.3	48.4	29.0	
	4 Observed	73	155	198	44	14	484
	4 Expected	57.7	149.6	199.3	48.4	29.0	
	5 Observed	39	58	237	97	53	484
	5 Expected	57.7	149.6	199.3	48.4	29.0	
	6 Observed	97	198	155	34	0	484
	6 Expected	57.7	149.6	199.3	48.4	29.0	
	7 Observed	29	155	247	34	19	484
	7 Expected	57.7	149.6	199.3	48.4	29.0	
	8 Observed	39	155	174	73	43	484
	8 Expected	57.7	149.6	199.3	48.4	29.0	
	9 Observed	39	160	203	43	39	484
	9 Expected	57.7	149.6	199.3	48.4	29.0	
Total		519	1346	1794	436	261	4356

Test Criterion:

$$\chi^2_{cal} = \frac{(O-E)^2}{E} \sim \chi^2_{(r-1)(c-1)} \text{ at } \alpha\% \text{ Level of significance}$$

$$\chi^2_{cal} = 556.1$$

Inference:

The $\chi^2_{table \text{ value}}$ at 5% level of significance for 32 degrees of freedom [(r-1) (c-1) = (9-1) x (5-1) = 32] is 46.194

Here, χ^2_{cal} is greater than $\chi^2_{table \text{ value}}$

So, we reject H₀

Hence we conclude that awareness level of DEMAT A/c holders on functions and services provided by Depository System in the contingency table are dependent.

Table No. 5: Perceptions towards Dematerialization and Indian Depository System

S.No.	Statements	Highly Agree	Agree	Neutral	Disagree	Highly Disagree	Total
1	DEMAT Account is the most secure form of keeping securities	276	194	14	0	0	484
2	There is Quick Transfer of Ownership in case of DEMAT Securities	174	252	58	0	0	484
3	Depository System reduces chances of Bad Delivery	145	261	68	10	0	484
4	Depository System reduces the Paper Work to be done by Broker	179	261	44	0	0	484
Total		774	968	184	10	0	1936



H_0 : Perceptions of DEMAT A/c holders on different statements in the contingency table are independent.

H_1 : Perceptions of DEMAT A/c holders on different statements in the contingency table are dependent.

Level of Significance: Appropriate level of significance is 5%

Statements * Perceptions Cross tabulation							
Perceptions							Total
Statements		Frequency	1	2	3	4	
	1	Observed		276	194	14	0
Expected			193.5	242.0	46.0	2.5	
2	Observed		174	252	58	0	484
	Expected		193.5	242.0	46.0	2.5	
3	Observed		145	261	68	10	484
	Expected		193.5	242.0	46.0	2.5	
4	Observed		179	261	44	0	484
	Expected		193.5	242.0	46.0	2.5	
Total			774	968	184	10	1936

Test Criterion:

$$\chi_{cal}^2 = \frac{(O-E)^2}{E} \sim \chi_{(r-1)(c-1)}^2 \text{ at } \alpha\% \text{ Level of significance}$$

$$\chi_{cal}^2 = 129.3$$

Inference:

The $\chi_{table\ value}^2$ at 5% level of significance for 9 degrees of freedom [(r-1) (c-1) = (4-1) x (4-1) = 9] is 16.919

Here, χ_{cal}^2 is greater than $\chi_{table\ value}^2$

So, we reject H_0

Hence we conclude that perceptions of DEMAT A/c holders on different statements in the contingency table are dependent.

CONCLUSION

To sum up, the awareness level, opinions, feelings and perceptions of DEMAT A/c holders on Indian Depository System is satisfactory.

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