CHAPTER 7
SURVEY OF INVESTORS AND DEPOSITORY PARTICIPANTS
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Contents:

7.1 Problems of Investors
7.2 Problems of Depository Participants
The NSDL System has provided a number of benefits to the investors. The investors are now getting the world-class infrastructure in the area of stock markets through Online Trading System and through Depository System. As discussed in the previous chapters, numerous advantages are available to the investors in the Depository System. It is true that the Depository System has eradicated a number of problems relating to the physical trade settlement system such as bad delivery, forged certificates, loss in transit, mutilated share certificate etc., but it should not be concluded that the Demat System in our country is running without any limitations. There are some specific problems, which have emerged with the introduction of Depository System in India. Some of these problems are highlighted here.

7.1 Problems of Investors

Some problems of the investors are given below:

(i) Problem related to Account Opening

Among the investors, surveyed under the study, some have faced problem in opening of an account. The formalities for opening an account with a Depository Participant are more than the account opening formalities of any bank. The investor need to have identity proof, then residence proof to open an account. The name should be exactly same on the identity proof and on the account opening form, otherwise the Depository Participant does not open the
account. These strict rules are made to avoid the Benami Transactions, but it is posing a lot of inconvenience to general investors. It is observed in the present study that out of the sample 500 investors, 11% of the investors have faced problem in the area of opening an account.

(ii) Problem in choosing the Depository Participant

The basic problem of the investors is to choose Depository Participant. There are so many categories of Depository Participants in India. The major categories are Bank DPs, Custodian DPs, Brokers Depository Participants and Institutional Depository Participants. It is very difficult for an ordinary person to choose one DP which is competent in the job. Many of Depository Participants don't have the staff with requisite qualification like National Certification of Financial Markets. In that case, it is very risky to open an account with the Depository Participant, as it may prove to be a loss making deal for the investor. It is observed in the present study as represented in the Chapter 6 that out of the sample of 500 investors, 27% of the customers are still relying on the advice of the friends/relatives while choosing the Depository Participant.

(iii) Problem in getting the Shares Dematted

This is the problem which most of the investors face in the Depository System. There are companies, which don't demat the
shares within the prescribed time. Some companies are known for not sending the electronic shares at all. Customers will keep on nagging the DPs for their Share Certificates sent through that Depository Participant. The regulator has tried to solve this problem by identifying the Companies and informing the customers and DPs in advance to take care in dealing with such Companies. But, ultimately, this is the customer who has to suffer due to bad intentions or poor management of the Companies. Some Companies have become sick now, the case is pending with the BIFR but nothing is being done to stop the customers for sending the Shares for Demat. The end result is that the Companies don't Demat the Shares on time and customer has to suffer. It is observed in the present study, as presented in Chapter 6, that of the 500 investors surveyed, 34% investors have faced problem in the area of Demat.

(iv) Problem of ignorance about the System

The Depository System offers a lot of advantages as compared to the Physical Trading System. But even after 9 years of existence, there is very less improvement in the level of education of the investor about the Depository System. With the advent of the T+2 settlement system, this need has become all the more important. The investors should be properly guided about the process and the procedures involved in the Depository System. The education level of the investors is to be increased so that they can enjoy the
advantages offered by the System. They should be made aware of their rights and obligations in the present system. Out of the sample of 500 investors, 25% investors are not aware that the cost of transaction has gone down with the advent of Depository System. It is observed in the present study, as presented in the Chapter 6, that 18% of the investors out of 500 investors surveyed, are not aware about the effect of Depository System on speeding up the settlement system.

(v) **Problem of non-applicability of the System to all Companies**

This is another limitation of the Depository System. This System is not applicable to all the Companies. There are Companies, which have not entered into the Depository System. The investors of these Companies usually enquire the status of the same from their DP time and again. It is revealed by the present study that out of the sample of 500 investors, 48% have faced problem because Depository System is not applicable to all the Companies.

(vi) **Problem of non availability of ISIN**

ISIN is the International Securities Identification Number, and this is mandatory to fill while giving any transaction slip to DP. But the general investors are not aware of the ISIN of the securities in their Demat Account. Generally, the DP send account statements to their client and that statement contains the ISIN of
the holdings of their clients. But this ISIN number is not available otherwise. Stock Exchange have their own codes for the Companies and then Depositories have ISIN's. It is very difficult for the general investor community to remember the codes and the ISIN's. Due to this, many investors face the problems. It is observed in the present study that 14% investors, out of the sample of 500 investors, have faced hardships due to fact that ISINs are not readily available.

(vii) Problem of time lag in actual Holdings

The investor, who has received securities in his account today, will come to know this fact only tomorrow. There is a time lag in assessing the information on the DPM through their local office, as the files are transmitted to the local office next day morning. Stock Market players need to constantly know what are their holdings at one moment of time. The general investors are not happy with this time lag factor.

(viii) Problem of Online connectivity

This is another problem of the System. There are many Depository Participants who have their own DPMs (Depository Participant Module) at the centers like Delhi. But there are DPs who have their DPMs at Mumbai and the transactions are done at Delhi and other places. The concerned officials have to under go
lot of inconvenience for transacting the business. The trade instructions are actually carried out in Mumbai, whereas the instructions are sent through scanning/email/fax to their Mumbai office by the local offices. Then the Mumbai staff carry out the transactions in the DPM. This process obviously takes more time than the process where DPM is installed locally. It is observed in the present study that 35% of the 500 investors in the sample have faced problems due to the fact that online connectivity is not available.

(ix) Problem of receipt of statement of holding on time

The Depository Participants are required to send the holding statements to their clients on monthly basis, if the customer has transactions in his account. The frequency is quarterly if there is no transaction in the client account. From June 1, 2003 the NSDL has made the frequency monthly instead of fortnightly in case the customers is having transactions in his account. One month is a long time to know the status of the shares bought today. Therefore, every investor chooses to visit the office of the Depository Participant and get this information. The Depository may give the plea that it is very costly affair to send the statements to the clients fortnightly. But the customer has to suffer due to the inefficiencies of the System. It is revealed by the present study as presented in the Chapter 6, that out of the sample of 500 investors, 38% investors have faced problem in getting the holding statements on time.
(x) Problem in Trading

The stock markets have recently adopted the T+2 System for trade settlements. The customers in these cases are expected to deliver the trade instructions to their respective DPs on the day of trade or on T+1 day. If they don't deliver the same on the next day till 4.00 P.M., then the DPs charges them with late fee and their instructions are marked 'Accepted on Best Effort Basis'. This stamp means that their instructions are carried out only on best efforts basis. The DPs can't be held responsible if the execution doesn't take place. Customers are facing a lot of risk in that case. It is revealed by the present study, as presented in Chapter 6, that 18 % of the investors out of the sample of 500 investors have faced the problem while making transactions.

(xi) Problem of Online Trading

Many Depository Participants have started Online Trading, as it is a very cost effective tool to deal in shares and other investments. Some large institutions have got a large number of accounts holders also for their online trading accounts like ICICI direct. The investors face a lot of inconvenience in these accounts also. Poor infrastructure of our country like slow speed of Internet also adds to the woes of the investors. Sometimes, the Website of the DP is down, sometimes phone line gives problem, and sometimes the DPs make fool of the investors by charging high account opening
fee. Recently, one of the online investors, 'www.equitymaster.com' has closed its online business. The cases like this shake the confidence of the general investors.

(xii) Problem in case of joint holding

One of major problems faced by the investors include the problem in case of joint holdings. In the banking system, every account, which is a joint account, has the facility of "either of survivor" generally called ERS. It means that the account pertains to both of them. The transaction can take place through any one of them. In the bank account, the liability for paying tax is only on the first holder. The Demat Account is not having this "either or survivor" facility. In simple words, all the joint holders have to sign on each and every transaction slip. Moreover, the Certificate in the name of A can't be dematted into the joint account of A and B. The account has to be compulsorily a single account.

(xiii) Problem of high fees charged by Depository Participant

Depository Participants are allowed to set their own fee patterns for the Demat Account. Some DPs are charging very heavily for the services rendered by them. Some Depository Participants are charging heavy penalty on the customers who are not paying their bill on time. The regulator should closely monitor these charges, so that the customer doesn't have to suffer due to high prices. It is
revealed by the present study as, presented in Chapter 6, that out of the sample of 500 investors, 50% investors feel that the charges of the Depository Participant are on the higher side.

(xiv) **Problem of low value holding customers**

The Depository has adopted the model of custody fee on the basis of the number of securities instead of huge value of the portfolio. In this case, the small investor, having Rs. 20 thousand value of portfolio divided into shares of 10 Companies, and the customer who have 50 lac worth of portfolio divided into shares of the 10 companies, will pay the same custody fee to their Depository Participants. This System does not discriminate between small and big investors. So, the small investors are at the loosing end. In both the cases, the account opening charges are also the same. High Value investors choose to get out of the stock markets due to high charges.

(xv) **Problem of high custody fee**

Another cost charged by the Depository is the custody fee. This fee is charged from the customers on the basis of number of scrip in his Demat Account. This is the burden on the investors, which was not there in the physical trading system. If the customer has any securities in the Demat Account and he plans not to sell his shares for ten years, he has to pay custody fee for 10 years. In the
earlier system, he could have just had the Certificates at his home and no fee was charged from anybody for ten years. But here, he is bound to have to pay for the ten years annual maintenance charges along with custody fee. He is loosing due to the introduction of the Depository System in this case. The custody fee was not there earlier but last year, the NSDL has started charging custody fee on the basis of the number of securities irrespective of quantity of the securities.

(xvi) Problem of reporting of failed transactions

The Depository Participants are required to contact the client in case the trade instruction fails. Some of the Depository Participants are doing a good service on this account by maintaining a good liaison with the customers. But investors feel that all Depository Participants don’t provide this information on time. The investor has to face a lot of hardships and incur losses in case the trade instruction fails.

(xvii) Problem of clearing system not compatible with the Depository System

The clearing system of RBI for cheque is not compatible with the T+2 settlement system of stock exchanges. The client has to provide advance funds to the brokers in case they wish to purchase any securities. As if client gives cheque to his broker on trading
day at 4 P.M. The cheque is deposited in the broker’s bank account on the next day i.e. T+1 day. It will go to clearing next day i.e. T+2 day, the clear funds will come into the brokers account on T+3 day at around 11.30 am. And before that broker has to pay to the stock exchanges to get the delivery of the securities due to T+2 settlement system. Suppose the bank returns the cheque of customer, in that case brokers have to provide funds from their own account to get the securities. So, the clearing system is long and the settlement system is fast. The general investors and the brokers are facing lot of difficulties due to this mismatch.

(xviii) Problem of System dependence

The whole system is electronically operated. Although, it secures all safety vaults and disaster site established at Pune to gauge the investors confidence, security, safety and markets efficiency, yet we can not make dependence on the system fully because in the event of failure of the system, the whole transactions made by investors will stand paralysed.

(xix) Problem related to Broker

The Depository has done a blunder by giving broker the authority of becoming Depository Participant, which gives a higher propensity of scam or misappropriation. For example a Broker 'X' is dealing in shares and also registered as Depository Participant
with NSDL. Being DP, he knows the number of shares lying in a client A/c, name of the Company where shares are lying, value of the shares and even the nature of the client, say, how frequently the client is making transaction. Let us suppose the broker X makes a short sale of 1000 shares of ‘ABC’ Company and at the end of the settlement cycle, he is available with the shares agreed upon by him i.e. 1000 shares of ABC Company. Now being a Depository Participant, he knows that such kind of shares are lying in the account of Mr. Z, who is not making transaction so frequently and for fulfilling its settlement requirement, he can use it for few days as soon as it is available to him, whereafter, he will transfer it in the client account.

(xx) Problem in computation of capital gain

Securities are issued in Depository Mode on the basis of First-in first-out method i.e. securities are issued first which are acquired or purchased first by the beneficial owner. This is not a fair method of computation of capital gains.

(xxi) Other Allied Problems

(a) Location Barrier

Although number of Depository Participants increases day by day, but majorities of the Depository Participants have their
location in Bigger cities so the facilities are not available to the investors of small cities, towns and villages. India is a country where villages and small cities/towns are more than big cities. So many of the areas of Haryana are deprived of such facilities.

(b) **Net Worth**

The criterion of net worth for becoming Depository Participant is of one crore is not sufficient. In today's era, having a worth of one crore is not very big. So, it would not be possible to avoid those individuals or institutions that want to become Depository Participant for their own benefits or interests. This affect the transactions of the investors.

(c) **Issue of Differential Voting Right Shares have practical problem**

Issuance of differential voting right shares in the Depository Mode have practical problem since dematerialised shares do not have any distinctive numbers. If such non voting shares are required by a shareholder who already have voting shares, than in the event of payment of dividend, there could be a problem regarding Identification of Non Voting Shares
7.2 Problems of Depository Participants

Depository Participant is the link of Demat System. It is the agent between NSDL and investors. DPs are also facing problems which are below:

(i) High fees charged by SEBI

SEBI Charged fees for incorporation and commencement of business from Depository Participants. These are very high. Today's world is very competitive. If their business as Depository Participant failed, this is a business loss to the DP, which affects the Organisation adversely. It is revealed by the survey that 50% of the Depository Participants feel that fees charged by SEBI are too high.

(ii) High fees charged by NSDL

NSDL charged fees like custody fee, transaction fee from the Depository Participants. These fees have to be deposited with NSDL timely. This is a costly affair for Depository Participants. 40% of the Depository Participants feel that the charges are high.

(iii) Problem of appointing NCFM qualified person

According to SEBI guidelines, one National Certification
in Financial Markets qualified personnel should be appointed in every branch of Depository Participant. Appointment of National Certification in Financial Markets qualified person is a costly affair for the Depository Participants. Survey reveals that 50% of the Depository Participants feel that charges are too high.

(iv) Problem of System Dependence

The whole system is electronically operated. Although, its secure all safety vaults, but full confidence in the system is make Depository Participants handicapped.

(v) Problem of reporting failed transactions

The Depository Participants are required to contact the client in case the trade transaction fails. Sometimes, it is very difficult to contact the investors and it will affect the goodwill of Depository Participant. It is revealed by the survey that 20% of the Depository Participants faced this problem.

(vi) Mismanagement of Companies

This is the problem which most of the DPs face in the Depository System. There are some Companies which do not Demat Shares in time. The regulator has tried to solve this problem by identifying the Companies and informing the DPs in advance
to take care in dealing with such Companies. But ultimately, customers blame DPs for late Dematerialisation. It is revealed that 30% of DPs faced this problem.

(vii) Problem of Ignorance of Customers about the System

The Depository System offers a lot of advantage as compared to physical trading system. But even after nine years of existence, there is very less improvement in the level of education of the investors about the Depository System. Out of the sample, 30% faced this problem.

(viii) Problem of DPM (Depository Participant Module)

This is another problem of Depository System. There are many Depository Participants, who have their DPM at Head Office. So the trade transactions are actually carried out in Head Office of the Depository Participant. Then the H.O. Staff carry out the transaction in DPM. This process obviously takes more time than process where DPM is installed locally. It is observed in the study that 50% of Depository Participants face this problem.

(ix) Problem of Monthly Statements of Holdings

This is also a problem in the Depository Participants where transactions are not made by the investors frequently. From June
2003, the NSDL had made compulsory the fortnightly statements of holding in case customer is having transactions in his account. It is a costly affair to send the statements to the clients fortnightly. about 10% Depository Participants faced this problem.

(x) Problem of Online Trading

Many Depository Participants have started online trading, as it is very effective tool to deal in shares and investments. Poor infrastructure in our country like slow speed of internet add to the woes of customers. This affects the Goodwill of Depository Participants. About 20% of the Depository Participants face this problem.

NSDL is the main body of the Demat System. A lot of efficiency and transparency exists in the system. NSDL has problems from Depository Participants, Companies, Registrars and Transfer Agents etc. But these are the minor problems. These can be solved easily if every player do its job efficiently. But the only major problem to NSDL is system Dependence.

System Dependence

The whole system is electronically operated. Although, it secure are safety vaults and disaster site established at Pune to guage the investors confidence,
security, safety and market efficiency, yet we cannot make dependence on the system fully because in the event of failure of the system, the whole working of NSDL will stand paralysed.

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