

**COMPETITIVE AND HEALTHY DEPOSITORY SYSTEM FOR SURPASS
SERVICES TO INVESTORS**

Dr. Sandeep Bansal*

INTRODUCTION

A Depository is an organization where the securities of share holders are held in the electronic format the request of the share holder through the medium of a depository participant.

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 shared and effect transfers by book entries without the need to deal and transfer the physical certificates between parties. This is to be sponsored by public financial institutions and banks and will have a minimum net worth of Rs. 50-100 crores as proposed by the SEBI. This central depository can be connected to a number of share depositories for effecting transfer in book entries. The Foreign financial institutions agencies, NRI's and OCBs have for long required the depository of this type for facilitating their trade in the Indian stock markets. These foreign security firms who were lincd by the SEBI are operating in India, but physical custody of the Indian securities has to be handled by Indian custodian such as a bank which taken converted into depository participants. The guidelines and regulations in aspect of the operations of depository participants will help smooth operations among participants and their operations with the central depository. A national securities depository corporation was set up in November, 1996.

*Associate Professor, IGN College. Ladwa (Kurukshetra, Haryana)

The Central Depository system aims at immobilization of physical certificates. This is done by means of book entries with central depository who keeps custody of all physical certificates as a first step. As a next step, new issues will be made as book entries only and not as physical certificates. Book entries transfers will lead to quicker transfers and at lower costs. It meets the increasing work load of investment activity and dealings to increasing volume of transfer work.

In the Depository system, the Depository extends its services to investors through intermediaries called depository participants (DP) who as per SEBI regulations could be organizations involved in the business of providing financial services like banks, broker, custodians and financial institutions.

Realizing the potential in this market all the custodians in India and a number of banks, financial institutions and major brokers have already joined as DPs and they are providing services in a number of cities. Many more organizations are in various stages of establishing connectivity with Depositories.

The admission of the DPs involve an evaluation by Depository of their capability to meet with the strict services standards of Depository and a further evaluation and approval by SEBI.

Towards, the end of the twentieth century there was two interesting prognostications about India's potential. The first was by a professor of business management in the United States (Rosenweig, 1998). He estimated that by 2025, India would be the third largest economy in the world (After the US and China). The second projection was by a well-known Indian Economist (Parikh, 1999). It was projected that India would reach a per capita income of U.S. \$ 30,000 or higher by 2047, making it one of the fastest growing countries in the world.

Indian capital market has been linked to the International Financial Market, and the standard has been increased in terms of efficiency and transparency through Dematerialization of the Indian Capital Market. In this context dematerialization is one of the right steps taken by the Government to make the share transfer process easier and on other hand the earlier demerits of the paper transfer process can be rectified. Dematerialization is a process in which the company takes the physical certificates of an

investor back and equivalent number of shares is credited in the electronic holdings of the investor.

The Indian Capital Market has been showing rapid growth in the recent part this can be observed from the key indicators of the capital market. But this growth has not matched with the supporting infrastructure to handle the growing volume of paper that has flooded the market choking in our existing system this has caused a lot of problems like delay in transfer of shares, settlement of claims high level of failed trade, bad deliveries and high systematic risk exposure etc.

The problem of Indian Capital Market is not its size but the lack of infrastructure services to handle its present size and potential growth in the future with the entry of foreign investors and the institutionalization of markets.

There had been tremendous pressure on the stock market. For its smooth operations the capital market regulator, SEBI, mandated that stock exchanges must begin the phased introduction of compulsory trading in dematerialized shares by all investors, with effect from January 4, 1999. By April 2005, 60 stocks comprising 77 percent of the market capitalization was traded through D-mat. Today most of the traded shares have changed their states from paper to D-mat form. Dematerialization of securities is a major step for improving and modernizing our markets and enhancing the level of investor protection.

NEED OF THE STUDY

At Present the Indian stock exchanges are following screen based trading and electronic settlement system. But investors scattered at various distant places from trading and settlement place. So there are some problems arising in the settlement and transfer system. Thus, there is a need to evaluate the effectiveness of Indian Depository system. In this paper following aspects has been analysed.

- Problems and Prospects of Indian Depository System.
- Elicit the opinions of Depository Participants with regard to the functioning of Indian Depository System.
- Make appropriate and relevant suggestions to the management of the Depositories.

RESEARCH METHDOLOGY

Although India adopted multi-depository system model to provide competitive and healthy depository system for surpass services to Investors. There is a chance to various entities to enter into Depository system but only two organizations National Securities Depository Ltd (NSDL) and Central Depository Services Ltd (CDSL) are providing depository services presently. Hyderabad city has been selected as sample area to collect questionnaire from Depository Participants (DPs).

The data has been collected both from primary and secondary source, which includes website of NSDL (www.nsdl.co.in) and CDSL (www.cdsl.ac.in), website of Indian central depository system (CDS), published reports of NSDL and Govt. of India, Depository Act-1996, SEBI Act-1992, and various working group reports published by SEBI on Depository and Capital Market Services, published books and printed material on financial services or Intermediaries. Primary Data was collected from DPs through questionnaire.

ANALYSIS AND INTERPRETATION**Table No 1**

Depository participants in the Depository system

| Name of the Depository | Number of participants | Percentage of DPs |
|------------------------|------------------------|-------------------|
| NSDL | 15 | 55 |
| CDSL | 1 | 5 |
| Both | 11 | 40 |
| Total | 27 | 100 |

The table no 1 clearly shows that majority of the participants are inclined towards NSDL, clearly depicting that 55 percentage of the participants are with the NSDL out of the total percentage of distribution followed by mixed involvement of participants comprising 40 percent and only 5 percent of the participants with the CDSL.

Table No 2

The investors' awareness about the services of Depository

| Participants Response | Investors awareness | Percentage of the awareness |
|-----------------------|---------------------|-----------------------------|
| YES | 18 | 65 |
| NO | 0 | 0 |
| Some Extent | 9 | 35 |
| Total | 27 | 100 |

The table no 2 shows that the investors awareness about the services of NSDL. The table shows that majority of the investors to possess the aspect of awareness regarding the services offered by the NSDL. We can draw an inference from the above tabulation that 65 percentages of the investors responds with favourism towards the awareness of the services of NSDL. The remaining 35 percent of the investors are also positively inclined towards the awareness up to some extent. This shows that the element of awareness is the major involved phenomena.

Table No 3

The availability of depository participants services in the rural area

| Availability of DP services | Distribution of the DP's opinion | Percentage of the availability |
|-----------------------------|----------------------------------|--------------------------------|
| YES | 11 | 40 |
| NO | 16 | 60 |
| Total | 27 | 100 |

The table 3 shows that the availability of depository services in the rural area. From this table we can read that 60 percent of the participants disclosed about the non availability of the depository services in the rural area and remaining 40 percent of the participants revealed that there is the availability of depository services in the rural area. The inference can be drawn that the majority of the participants are in the opinion of non-availability of the services in the rural area.

Table No 4

Accessibility of the depository participants' service center to the common investor

| Participants response | Distribution of opinion | Percentage of accessibility |
|-----------------------|-------------------------|-----------------------------|
| Yes | 24 | 89 |
| No | 3 | 11 |
| Total | 27 | 100 |

Table 4 shows the accessibility of the depository services center to the common investor. 89 percentages of the total respondents disclosed the essay accessibility of depository participants' service center to the common investor and only 11 percentages has negative opinion. So it can be concluded that majority of the participants are positive with accept of accessibility of the depository service centers.

Table No 5

The services offered by depository participants to the clients in order to overcome the geographical and time barriers

| Services offered by depository participants | Response by depository participants | Percentage of services |
|---|-------------------------------------|------------------------|
| Formal communication | 3 | 10 |
| Informal communication | 9 | 35 |
| Both | 3 | 10 |
| No response | 12 | 45 |
| Total | 27 | 100 |

The table 5 envisages that the facilities offered by depository participants to the clients in order to overcome the geographical and time barriers. This statistics reveals that formal communication and in-formal communication accounts to 10 and 35 percentages respectively regarding the facilities offered by the depository participants. 10 per cent of the respondents had inclined towards both the ways. But unfortunately 45 per cent of the respondents turned with no response.

Table No 6

The Opinion on the security of the new transferring and settlement system

| Participants Opinion | Distribution of the Opinion | Percentages of the Opinion |
|----------------------|-----------------------------|----------------------------|
| Positive | 27 | 100 |
| Negative | 0 | 0 |
| Total | 27 | 100 |

The above table envisages the opinion on the security of new transfer and settlement system. It can be clearly inference that all the respondents unanimously voted positively in favour of the new transfer and settlement system, which can be termed as the total positive approach.

Table No 7

The opinion on the mode of the communication about the information on the recent developments in the depository system to the investors

| Mode of communication | Distribution of Participants | Percentage |
|-----------------------|------------------------------|------------|
| Formal | 3 | 10 |
| Informal | 17 | 65 |
| Both | 4 | 15 |
| No Response | 3 | 10 |
| Total | 27 | 100 |

The table clearly enlists the opinion regarding the mode of communication about the information on recent developments in the depository system to the investors. 65 percent of the respondents voted towards informal mode of communications and surprisingly 15 percent respondents bended towards the both modes of communications and 10 percent showed no response.

Table No 8

The opinion of Depository Participants about the existing fee structure by Depository

| Participants Opinion | Distribution of Participants | Percentages of the Opinion |
|----------------------|------------------------------|----------------------------|
| Agreed | 23 | 85 |
| Not Agreed | 4 | 15 |
| Total | 27 | 100 |

The table 8 shows the opinion of the depository participants on the existing fee structure. 85 percent of the respondents declared their favourism towards the present fee structure and 15 percent of the respondents turned negatively.

Table No 9

The Participants' opinion on the monitoring system

| Participants Opinion | Distribution of Participants | Percentages of the Participants |
|----------------------|------------------------------|---------------------------------|
| Positive | 26 | 96 |
| Negative | 1 | 4 |
| Total | 27 | 100 |

The table 9 shows the participants opinion about the monitoring system. 96 percent of the respondent showed favourism towards the existing monitoring system and only 4 percent of the respondents gave negative opinion.

Table No 10

The depository participants' opinion about the competition among them

| Participants Opinion | Distribution of Participants | Percentages of the Opinion |
|----------------------|------------------------------|----------------------------|
| Yes | 23 | 85 |
| No | 4 | 15 |
| Total | 27 | 100 |

The above table shows the Depository Participants opinion about the competition among themselves. 85 percent of the respondents opined that there is a stiff competition among them and only 15 percent of the respondents opined that there is no competition among them.

Table No 11

Depository Participants opinion about the Depository System

| Depository Participants Opinion | Distribution of Participants | Percentages of the Opinions |
|---------------------------------|------------------------------|-----------------------------|
| Good | 4 | 16 |
| Very Good | 11 | 42 |
| Excellent | 11 | 42 |
| Average | 0 | 0 |
| Bad | 0 | 0 |
| Total | 26 | 100 |

The table 11 enlists the depository participants' opinion about the Depository. 42 percent of the respondents commented that the Depository organization is very good and another 42 percent gave their opinion as excellent. 16 percent of the respondents claimed the Depository system as good and no negative statement came from any sect of the respondents.

Table No 12

The Depository Participants suggestions for introducing round the clock services

| Depository Participants Suggestion | Distribution of Participants | Percentages of the Suggestions |
|------------------------------------|------------------------------|--------------------------------|
| Favorable | 15 | 55 |
| Unfavorable | 7 | 25 |
| Can't say | 5 | 20 |
| Total | 27 | 100 |

The table 12 shows that the depository participants' suggestions for introducing round the clock services. 55 percent of respondents voted in-favor to the introduction of the round the clock services. 25 percent of the respondents are not in favour towards the above mentioned system and 20 percent of the respondents did not responded on the introducing of round the clock services.

CONCLUSION OF THE STUDY

-Majority of the participants resided with NSDL with stake of 55 percent. Thus, NSDL acts as the primary organizations with the majority of the participants in the system.

-65 percent respondents had opined that investors have well awareness regarding the system.

-60 percent respondents casted their vote in favour of the non-availability of the services in the rural area. This indicates that there is every need to propagate the services to the rural India.

-89 percent of the respondents respond towards the accessibility of the services. It shows clearly accessibility of the service centers to the common investors.

-Further, the respondents have no clear and crisp idea regarding the services offered by the DPs to the clients in order to overcome the geographical and time barriers. In order to overcome above barriers formal and informal communication need to be developed. The innovative electronic modes of communications like Internet and fax are to be provided.

-The existing security system regarding the transfer and settlement aspects as the perfect fit to the present depository system as it was supported by total ballot of respondents.

-The informal mode of communication places an important role in the process of conveyances of recent development to the investors followed by formal mode of communication. However there is every need to develop both the modes of formal and informal communication systems in order to equip the investors about the recent developments in the depository system.

-The majority of the depository participants are not offering any highlighted service to the Beneficiary owners. Thus there is every need on the part of the DPs to increase both of their formal and informal services to the beneficiary owners' as only minorities of the DPs are offering the highlighted services like low cost factors.

-The majority of the respondents were comfortable with the prevailing fee structures of Depository. This shows that existing fee structures followed by NSDL is benevolent.

-The prevailing monitoring system do fits well up to the expectants of the respondents as 96 percent respondents are satisfied with the existing monitoring system.

-85 percent respondents in the present study opined that there is stiff competition between the depository participants in India

-NSDL is the best prevailing structure in the opinion of the respondents in the depository system. This shows that NSDL has consolidated itself with a perfect functioning structure enrooted in the system.

-The majority of the respondents are favorable regarding the introduction of 'round the clock services' within the prescribed supervisory manner, so that beneficiary owners can avail the services around 24 hours frame work.

SUGGESTIONS

It is fact that dematerialization plays a vital role in the Indian Capital Market. The investor is able to know risk and return of the share by using dematerialization. It benefits not only the investor but also helps a lot to the nation in maintaining a sound capital market system. The two major benefits are affected immediately after settlement of the trade at the stock exchange. Expansion of the compulsory demat list will increase the investment options of the investors by giving investor an opportunity to pick up high priced stocks to diversify the investor's portfolio clean title of shares, enhanced liquidity and buying odd lots are three crucial aspects of demat trading. However, the major drawbacks of the system are winning the confidence of the investors by DP. The DPs should be more accountable and responsible to the investors. Additional safety measures should be provided to make the system more effective.

The benefit of the depository system is significant. Introduction of depositories will improve the market efficiency through adopting criterion for describing scripts depositories' eligibility. The paper management is substantially reduced. This helps in saving the time in allotment and transfers of scripts. This improves internal system effectively.

The intensity of trading in the script is likely to increase substantially. The experiences of the developed countries, those who had introduced the depository system,

shows that there have been around 5 to 6 times increase in the turnover. This happens due to investor indulging more in buying and selling even for marginal trading profits. The cost of bad deliveries, forged share certificates and unproductive back office activity were vanish for corporate sector. The depository system will bring a sea change in corporate democracy, particularly in corporate management etc. In brief, it is suggested that :

- Depository participants services should be made available to the investors round the clock and efforts must be made to reduce the transaction time.
- Depository participant has to make awareness to investors about rules and services provided to the investors.
- Services system provided by the DP must be updated regularly to suit the requirements of the investor like accurate information and guidance to the investor.
- DPs are to be connected internally with each other.
- More efforts are to be made to improve the electronic based services.
- The Depository system should be made linked up with international financial markets in order to provide easy access of the investors around the globe.

REFERENCES

- The SEBI Act: 1992.
- Indian Depository Act: 1996.
- SEBI (Depository and Participants) Regulations, 1996.
- NSDL Operation Manual for Participants
- NSDL Investor's Guide
- A Clearing member Guide to Trading and Settlement
- NSDL Operation Manual for Government Securities

- **WEBSITES**

www.dematerialization.com

www.nsdl.co.in

www.cdslindia.com

www.sebi.gov.in