

INVESTORS' PERCEPTION REGARDING IMPROVEMENTS IN DEPOSITORY SYSTEM

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***Abstract:** Depository System has changed the face of Indian Capital. It removed the physical, structural as well as systematic risks that are inherent to the physical securities market. It not only removed the bottlenecks but also enhanced the liquidity, improved trading and settlement. Depository System has profound impact on investor. There has been constant need of improvement in capital market for greater efficiency. This study makes an attempt about Investor perception regarding efficiency, advantages, limitations and further improvement in depository System.*

***Keywords:** Depository System, Liquidity, Efficiency.*

INTRODUCTION

The Indian Capital Market has seen unprecedented growth in the last two decades. Two major structural changes which has changed the face of entire securities market are

1. Screen Based Trading
2. Depository System

These two factors combined together helped in reducing the trading and settlement cycle in Indian securities market which got reduced from as long as 22 days to 2 days currently. Screen based trading several benefits such as transparency in trading and equal opportunity for market players all over the country but the problems related to settlement of trades was grossly inefficient as every transfer involves physical movement to the change of ownership as it was evidenced by an endorsement on the security certificate.

In many cases the process of transfer takes much longer than the two months stipulated in the compliance of paper work, theft, forgery, mutilation of certificate and other irregularities. All this added to costs delays in settlement restricted liquidity and made redressal of investor grievances time consuming.

This failure gave the idea of second structural change- Depository System which involves setting up an electronic system with paperless trading and faster settlement

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cycles. A depository is an organisation where the of a shareholder are offered electronic form solution to the problems of dealing in physical form and conducting transactions in the capital market in more efficient and effective manner. Depository provides instantaneous electronic transfer of securities. This ensures transfer of securities with speed, accuracy and safety and safety. It provides for transfer of the ownership of securities by book entry without their physical movement between seller, buyer and issuer. Under the provisions of the Depositories Act, provides basic facilities like accounts maintenance, dematerialization, dematerialization, settlement of trades through market transfer, off market transfer & inter depository transfers, distribution of non-cash corporate action, nomination and transmission.

The introduction of the depository system was an important step in the reform process. The depository system thus removes some of the physical, structural as well as systematic risk that inherent to the physical securities based markets. In fact introduction of on line trading and depository system has changed functioning of the Indian capital market.

LITERATURE REVIEW

Law (1999) in his article "Depository Revolution" has discussed that depository is not just removing fake shares and bad deliveries from the capital market but to prove a great catalyst for reform.

Kumar (1998) studied the advantages of dematerialization and opening of Demat account. He also compared the effect on trading of shares of the companies have dematerialized their shares and who have not dematerialized their shares.

Rao (1995) gives brief overview of need significance and benefits of depository. He discussed that the biggest deterrent or bottleneck of India Capital market is largely manual and paper based settlement system which is obsolete for rapidly growing market. Since 1992, decade old trading system Indian Stock Exchanges have been under constant review. The new system will eliminate paper work, facilitate booked entry of securities, permit automatic and transparent system based trading in securities, shorten settlement period and improve liquidity in securities.

Mayya (1998), compare the cost involves in both segment and reason to adopt depository environment- "Trade in the dematerialized segment of the market, and you can save more that 50 per cent of the cost you would ordinarily incur by buying and selling stocks in the physical delivery segment.

Better still, this depository system eliminates the headaches associated with trading and transferring shares in physical form (that is, through share certificate and transfer deeds). This saving does not even consider the implicit costs of mutilated share certificates, theft, bad deliveries (largely on account of signature difference)and postal delays to name a few of the problems that routinely plague investors in physical segment."

RESEARCH METHODOLOGY

To analyze the perception of investors regarding depository system the primary data was collected from different investors of Jaipur region, taken as the area of the study. The retail investors, drawn from those who visited in Depository Participants' and Brokers' offices were administered a questionnaire. Total 200 questionnaires were distributed but only 150 questionnaires were returned. The data was processed through tabulated frequency distributions using the SPSS programme.

Response Rate

One hundred and twenty (150) fully filled questionnaires out of the 200 Distributed were received from various individual respondents. This represented a response rate 75%.

Age Group of Respondents

Respondents were categorized by age group and the results in the table indicated the following age group of the respondents.

Table 1
Age Group of Respondents

	<i>Frequency</i>	<i>Valid Percentage</i>	<i>Cumulative Percentage</i>
Below 25	36	24	24
25-40 Years	47	31.33	63.04
40-55	43	28.67	84.77
55 and above	24	16	100
	150	100.00	

Table 2
Gender Group of Respondents

	<i>Frequency</i>	<i>Valid Percentage</i>	<i>Cumulative Percentage</i>
Male	120	80.00	80.00
Female	30	20.00	100
		100	

Table 3
Education of Respondents

	<i>Frequency</i>	<i>Valid Percentage</i>	<i>Cumulative Percentage</i>
Under Graduates	18	12.00	12.00
Graduates	48	32.00	44.00
Post Graduates	46	30.67	74.67
Professionals	38	25.33	100
		100	

Table 4
Income of Respondents

	<i>Frequency</i>	<i>Valid Percentage</i>	<i>Cumulative Percentage</i>
Up to 200,000	16	10.67	10.67
200,1 To 400000	58	38.66	49.33
400,001 To 600,000	54	36.00	85.33
600,000 and above	22	14.67	100
		100	

Table 5
Employment Status of Respondents

	<i>Frequency</i>	<i>Valid Percentage</i>	<i>Cumulative Percentage</i>
Employed	72	48.00	48.00
Self employed	59	39.33	87.33
Retired	19	12.67	100
		100	

FINDINGS

On analyzing the following are the findings –

1. 72% respondents are fairly satisfied with depository system in comparison to physical system of transfer of securities.
2. Ranking given by the investors in regard to advantage of depository system
 - (a) Improved the confidence level in the capital market
 - (b) Immediate transfer of securities and faster settlement increased liquidity
 - (c) Elimination of paper work
 - (d) Specialized services and expanded product ranges
 - (e) Faster disbursement of non-cash corporate benefits
3. Other benefits that are considered by investor with the introduction of depository System
 - (a) Convenience in updating of addresses and bank details
 - (b) Improved operational convenience in initial public offers
 - (c) Reduction in transaction cost
4. Satisfaction level of the Investors regarding depository services
 - (a) Highly Satisfied with respect to Dealing of DP's
 - (b) Satisfied with respect to Fees structure of DP's
 - (c) Satisfied with respect to Service time of DP's
 - (d) Satisfied with respect to Infrastructure Facilities of DP's

5. 26% respondents state that introduction of depository system has several limitations.
6. Satisfaction Level of the Investors regarding depository services
 1. 34% Satisfied with respect to Transparency in Charges.
 2. 36% Satisfied with respect to Time lag in Dematerialisation Process
 3. 26% Dissatisfied with respect to Manipulation by Brokers with Delivery Instruction Slip
 4. 26% affirms that depository system have increased the complexity in System
7. Other limitation that are considered by investor with the introduction of depository system
 - (a) Not fully aware of the mechanism
 - (b) Less awareness about value added services of depository
8. Investor perception regarding Improvement in Depository System
 - (a) All aspects and charges should be disclosed at account opening
 - (b) Account opening agreement should be made more simple and understandable
 - (c) Transmission procedure should be more simplified where valid nomination is done
 - (d) More awareness of internet based services
 - (e) More knowledge about DIS and its precautions are needed

CONCLUSION

Thus investor perceives introduction of the depository system was an important step in the reform process. It provides transfer of the ownership of securities by book entry without their physical movement between seller, buyer and issuer. The depository system thus removes some of the physical, structural as well as systematic risk that inherent to the physical securities based markets. With advantages of depository system investor also perceive some limitation with respect to complexity of system for which some improvement are also given.

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APPENDIX 1

Questionnaire

This questionnaire is prepared to facilitate collection of data on investor perception regarding improvement in depository system. I am undertaking a study on this topic and I have chosen you as a respondent. This study is carried out purely for academic purposes and the information given will be treated with confidentiality and for only the purposes of this study. This is therefore to request for your time in answering this questionnaire.

Table 1
Profile of the Retail Investor

S. No.	Character	Response %
1.	Gender Male Female	
2.	Age in Years Below 25 25 To 40 40 To55 55 and above	
3.	Education Under Graduates Graduates Post Graduates Professionals	

Cont. table 1

S. No.	Character	Response %
4.	Income per Year (in Rs.) Up to 200,000 200,1 To 400000 400,001 To 600,000 600,000 and above	
5.	Employment Status Employed Self employed Retired	

- On the overall, how satisfied are you with the Depository system in comparison to Physical system of transfer of securities? (Please tick one)
 Very satisfied [] Fairly satisfied [] Satisfied []
 Not at all satisfied [] Very dissatisfied []
- The Depository System has brought with it several benefits. Please indicate your level of satisfaction each of the scales described in the table below.

Sl. No.	Benefits	Rank all these Benefits from 1-5 as your Perception
1.	Improved the confidence level in the capital market	
2.	Immediate transfer of securities and faster settlement increased liquidity	
3.	Elimination of paper work	
4.	Specialized services and expanded product ranges	
5.	Faster disbursement of non-cash corporate benefits	

- In your own opinion, please list other benefits that you consider may have come with the introduction of Depository System

4. Satisfaction Level of the Investors Regarding Depository Services

Sl. No.	Attributes	Highly Satisfied	Satisfied	Indifferent	Dissatisfied
1.	Dealing of DP's				
2.	Fees structure of DP's				
3.	Service time of DP's				
4.	Infrastructure Facilities of DP's				

- The introduction of Depository System has several limitations. Do you agree?
 Yes [] No []

6. Please indicate your level of satisfaction each of the scales described in the table below.

<i>Sl. No.</i>	<i>Attributes</i>	<i>Highly Satisfied</i>	<i>Satisfied</i>	<i>Indifferent</i>	<i>Dissatisfied</i>
1.	Transparency in Charges				
2.	Time lag in Dematerialisation Process				
3.	Manipulation by Brokers with Delivery Instruction Slip				
4.	Complexity in System				

7. In your own opinion, please list other limitations that you consider may have come with the introduction of the Depository service

8. Improvement in Depository System

<i>Sl. No.</i>	<i>Attributes</i>	<i>Process</i>	<i>Charge</i>	<i>Awareness</i>	<i>Transparency</i>
1.	Account Opening				
2.	Dematerialisation				
3.	Trading and settlement				
4.	Internet based services				
5.	Transmission				
6.	Delivery Instruction slip				

9. In your own opinion, please list other improvements that you consider for Depository System
