

INVESTORS PERCEPTION TOWARDS DEPOSITORY SERVICES PROVIDED BY PRIVATE SECTOR BANKS

DR. A. RAMAKRISHNAN----- **RUCHI MALHOTRA**

INTRODUCTION :-

One of the biggest problem faced by Indian Capital market has been manual and paper work settlement system. Under this system, the clearing and settlement of transactions take place only with the use of paper work. The system of Physical delivery of scrip's poses many problems for purchaser as well as the seller in the form of delayed settlements. Thus to eliminate paper work, facilitate scripless trading and electronic book entry of the transfer of securities, it was found necessary to replace the old system of transfer and settlement with the new and modern system of depositories. Accordingly the Government of India enacted the Depositories Act in 1996 for the orderly growth and development of Indian capital market. The governing body of SEBI approved the draft of SEBI (Depositories and participant) regulation Act 1996. The Government of India on July 10, 1997 introduced the depository bill to usher scripless trading, National securities depository Ltd Promoted by Industrial Development Bank of India, UTI and NSE emerged as the first depository to be registered in India.

DEPOSITORY PARTICIPANTS

A DP is acting as Investor representative in the depository system. It is also an agent of depository. Its functions are like a link between the depository and beneficial owners/investors. DP maintain the ownership records of every beneficial owner in book entry form. The main services provided by DP's are as follows :

- Dematerialization i.e. converting Physical Securities into electronic form
- To maintain record of holdings in the electronic form.
- Settlement of all-market trades.
- Providing electronic credit in respect of securities allotted by Issuers under IPO.
- Pledging of dematerialized securities.
- Facilitating securities lending and barrowing Sf the DP is registered as an approved intermediary for the purpose.

METHODOLOGY OF THE STUDY

Statement of the Problem :

All Private banks in the country are providing a variety of financial products/ Financial Services which depict creativity and constant innovation of financial products as per the needs of their customer base. The main reason for selecting this topic is to compare and highlight the DP services being administered by various banking depository participants and to give suggestions to these DP's to enhance creativity in their offerings.

Objectives of the Study :-

The main objective of this paper is to :

1. Make a comparative analysis of DP services being administered by banking depository participants.
2. To determine investors perception towards DP services.
3. To check the growth trends, increasing popularity and awareness of DP services.

Research Approach

A consensus survey of DP services provided by offered by or Private Banks like ICICI, HDFC, IDBI, AXIS, KMB, including cross questioning and discussion with the banks customers as per convenience.

Sources of Data

1. Bank information Brochures
2. Journals and Magazines
3. Depository Accounts, record of delivery instructions.
4. Discussion and counter questioning interview with the investors who have opened the Demat account with these Banks.

Limitations of the Study

1. It was sometimes difficult to obtain data and sometimes wrong information was provided by source, which has to be crosschecked and verified.
2. Data collected may be subjective due to personal perception of different interviewed.
3. The dynamic Environment Prevalent in the banks may render the findings to be untrue and obsolete over a period of time.
4. Gathering information from various banks was not an easy task.

Comparison of fee Schedule for Depository Services of Private Banks.

In this we have to study various formalities and types of charges and fees, paid by investors to depository participants and we have to find which bank provide better services with less fees and charges. The comparison is shown in a form table.

Depository Services	IDBI	HDFC	ICICI	Kotak Mahindra Bank	AXIS Bank
Account Opening	Free but compulsory saving A/C in bank	Free but Compulsory Saving Account in bank	Free but Compulsory Saving Account in bank	Free but Compulsory Saving Account in bank	Free but Compulsory Saving Account in bank
Custody charges	Rs. 1.25 per month/ per ISIN (International Security Identification Number)	Rs. 2.5 per quarter/ per ISIN	Rs. 2.25 per quarter/ per ISIN	Rs. 1.00 per month/per ISIN	Rs. 1.00 per month/ per ISIN
Demat charges	Rs. 2/- per certificate and Rs. 35/- per request	Rs. 3/- per certificate and Rs. 35 per request	Rs. 2/- per certificate and Rs.35/- per request	Rs. 3/- per certificate and Rs. 25/- per request	Rs. 2/- per certificate minimum Rs. 10/- Rs. 30/- per request
Account Maintenance Charges	Rs. 350/- per annum	Rs. 299/- p.a	Rs. 350/- p.a.	Rs. 299/- p.a	Rs. 300/- p.a
Remat Charges	0.04% (Min Rs. 20/- per certificate	Rs. 10/- per certificate	Rs. 20/- per certificate	Rs. 25/- per certificate and Rs. 25/- per request	0.15% (min) Rs 25/- per certificate
Equity Transaction Sale	0.04% min Rs 30/- per transaction	0.04% min Rs. 20/- per transaction	0.02% min Rs. 20/- per transaction	Rs. 15/- per transaction	0.02% min Rs. 15/- per transaction
Statement charges	Quarterly free and Rs. 25/- per request	Quarterly free and Rs. 25/- per request	Quarterly free and Rs. 20/- per request	Quarterly free end Rs. 25/- per request	Quarterly free and Rs. 15/- per request
Pledge creation	0.05% min Rs. 50 per transaction	0.02% min Rs. 25/- per transaction	0.02% min Rs. 25/- per transaction	0.02% min Rs. 35 per transaction	0.01% min Rs. 100 per transactions
Pledge closure	0.05% min Rs. 25/- per transaction	0.04% min Rs. 25/- per transaction	0.02% min Rs. 15/- per transaction	0.02% min Rs. 25/- per transaction	0.01% min Rs. 100/- per transaction

Source: www.idbi.com, www.hdfcbank.com, www.icici.com, www.axisbank.com, www.kotak.com.

- (1) Remat charges are lowest in HDFC i.e Rs. 10/- per certificate and all the other banks like IDBI, ICICI, Axis, Kotak Mahindra Charges Rs. 25 per certificate Or Rs. 25/-per request.
- (2) All banks have made it mandatory for customers to have a saving account for opening Demat Account.
- (3) Annual account maintenance charges are lowest in HDFC Bank and Kotak Mahindra Bank on the other hand IDBI and ICICI charges are highest of Rs. 350 p.a.
- (4) Axis Bank is the only private bank that provides facility of quarter as well as annual Demat Account to its customers.
- (5) IDBI charged custody charges pre month whereas HDFC and ICICI custody charges quarterly.

ANALYSIS : Following are the main questions which are asked from various investors to make a comparative analysis of their perception regarding various DP services provided by private banks and to find out which bank provide best DP services.

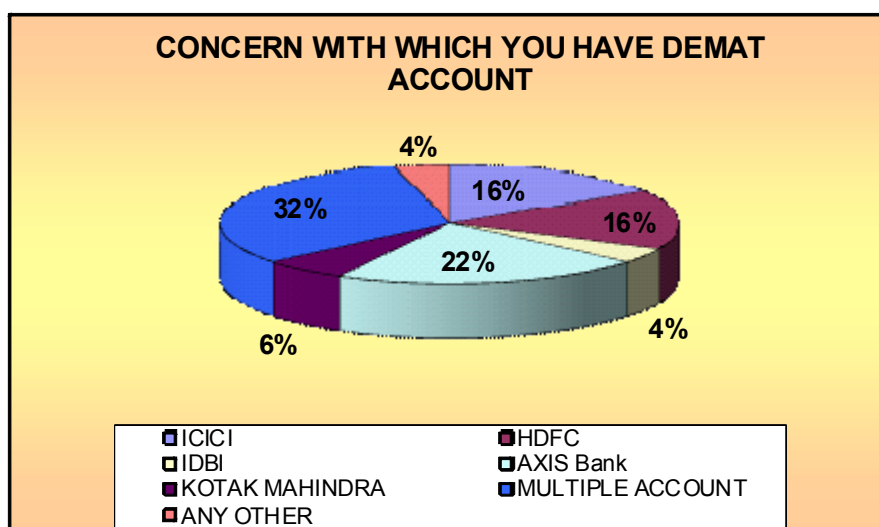
The data have been analysed by using a number of statistical techniques such as Waited Average Score (WAS). The respondents were asked to rate some important factors on a five point scale (Most important to most un-important).

COMPARATIVE ANALYSIS OF INVESTORS

1. With which concern do you have a Demat Account ?

Options	No. of Respondents	Percentage (%)
ICICI	16	16%
HDFC	16	16%
IDBI	4	4%
AXIS Bank	22	22%
KOTAK MAHINDRA	6	6%
MULTIPLE ACCOUNT	32	32%
ANY OTHER	4	4%
TOTAL	100	

Table No. 1



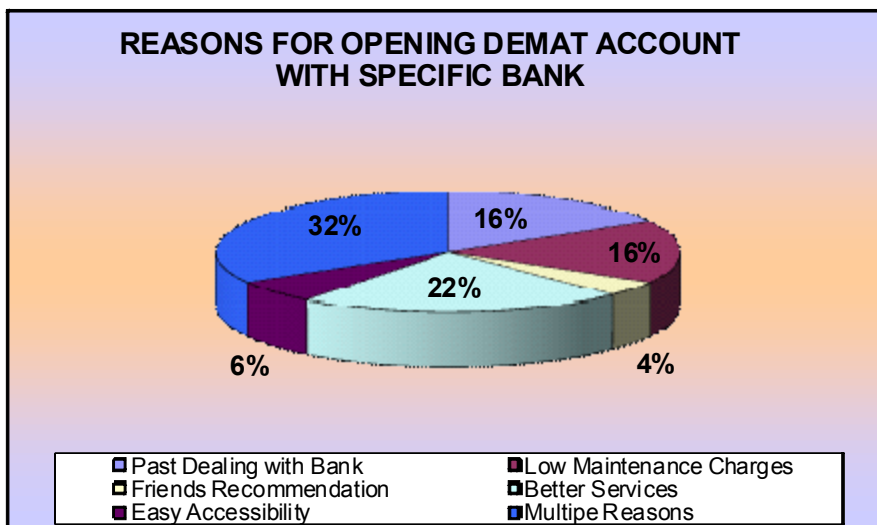
Graph No. 1

The major portion in the above pie chart is covered with blue, that consists of “investors having multiple accounts with multiple banks”, which contributes to 32% of the total area, followed by AXIS bank, where about 22% of the investors have opened their demat account. After AXIS bank, HDFC bank is on second position, with which 16% of the investors have opened their demat account, followed by ICICI Bank, which contributes to 16% of the total area. About 6% investors have opened their demat account with Kotak Mahindra bank, followed by IDBI Bank, which is 4%. Also, about 4% of the investors have opened their demat account with other banks and companies. The above analysis clearly shows that among various DP’s, AXIS is in First position as compared to that of other DP’s as large number of investors has opened their demat accounts with this bank.

2. Reasons for opening Demat Account with specific bank.

Options	No. of Respondents	Percentage (%)
Past Dealing with Bank	22	22%
Low Maintenance Charges	4	4%
Friends Recommendation	2	2%
Better Services	12	12%
Easy Accessibility	6	6%
Multiple Reasons	54	54%

Table No. 2



Graph No. 2

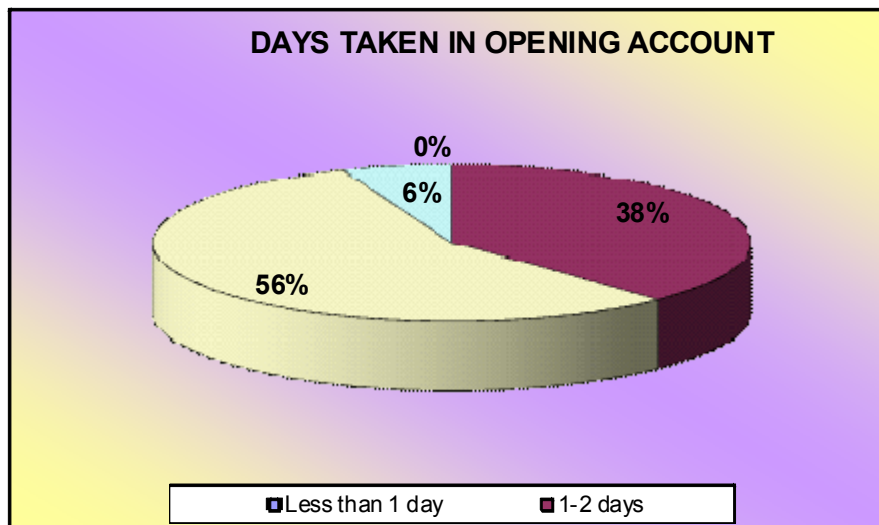
The major portion of the pie chart with blue, “Multiple Reasons” which contributes to the 54% of the total area, it shows that 54% of the investors consider multiple reasons out of above, while making decision regarding opening of Demat account with the specific bank.

The above analysis clearly shows that 22% of the investors open their demat account with the specific bank because of past dealing with that bank, followed by those investors who prefer better services of specific bank, which is 12%, rather than any other reason. It also shows that very small number of investors prefer to open their demat account with the specific bank because of easy accessibility, low maintenance charges as well as friends recommendations, which is 6%, 4% and 2% respectively.

3. Days Taken in Opening Demat Account

Options	No. of Respondents	Percentage (%)
Less than 1 day	0	0%
1-2 days	38	38%
2-5 days	56	56%
More than 5 days	6	6%

Table No. 3



Graph No. 3

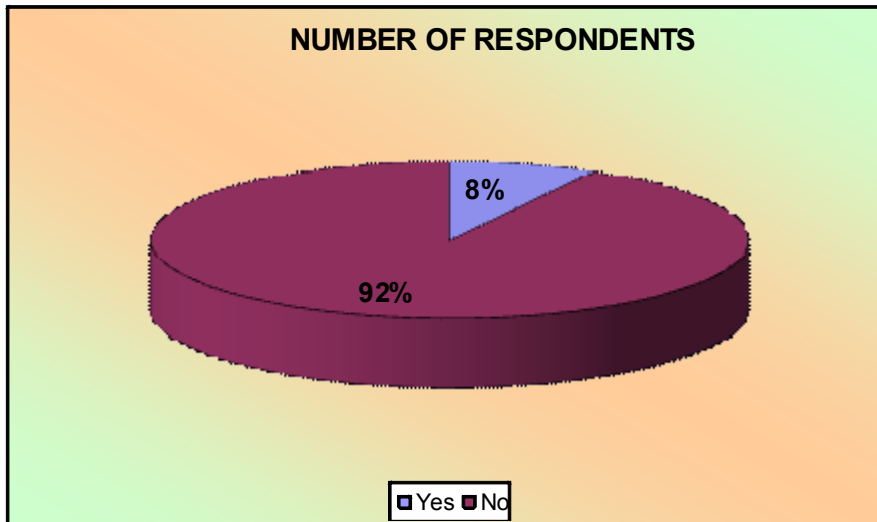
In the above table, the respondents were asked about the number of days taken by their depository participants in opening of an account, the responses in the above pie chart shows that major portion of the chart is covered with 56%, which is 2-5 days taken in opening of an account, followed by 1-2 days, which is 38%. Some depository participants take more than 5 days in opening of an account, which contributes to 6%.

The above analysis clearly indicates that no depository participants opens an account on the same day. It shows that generally, DP's take 2-5 days, which needs to be improved. There is need for DP's to make fast processing in opening of an account to avoid a huge difference between the number of more and less days taken in opening of an account.

4. Problem while opening a Demat Account.

Options	No. of Respondents	Percentage (%)
Yes	8	8%
No	92	92%

Table No. 4



Graph No. 4

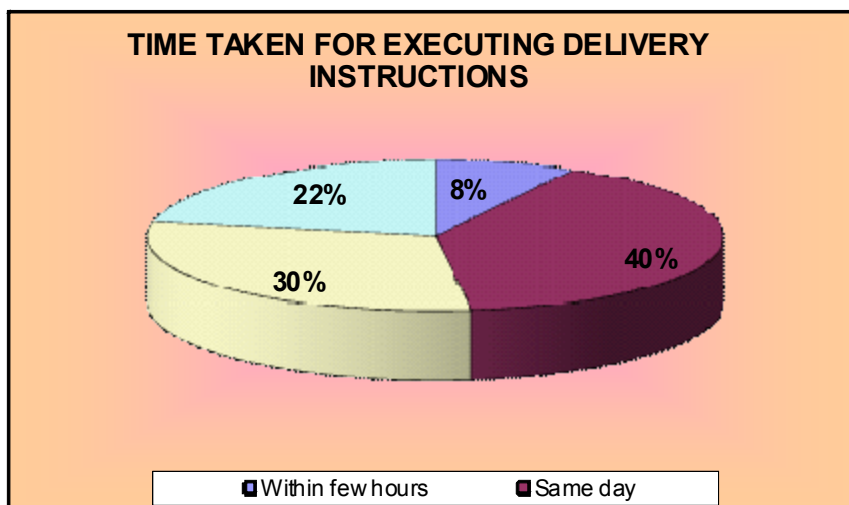
The major portion of the pie chart is covered with Red “those investors having no problem while opening an account”, which contributes to 92% of the total area, followed by “investors having problem in opening account” which is 8% only.

This shows that majority of the investors faced no problem in opening an account as compared to other investors. The analysis shows that the depository services are providing better services to investors but still there is need for little improvement and personalized attention in the structure of their services so as to satisfy the investors and solving their problems while opening an account.

5. Time taken by Banking Depository participants in Executing delivery instructions.

Options	No. of Respondents	Percentage (%)
Within few hours	8	8%
Same day	40	40%
Within 1 day	30	30%
Within 2 days	22	22%

Table No. 5



Graph No. 5

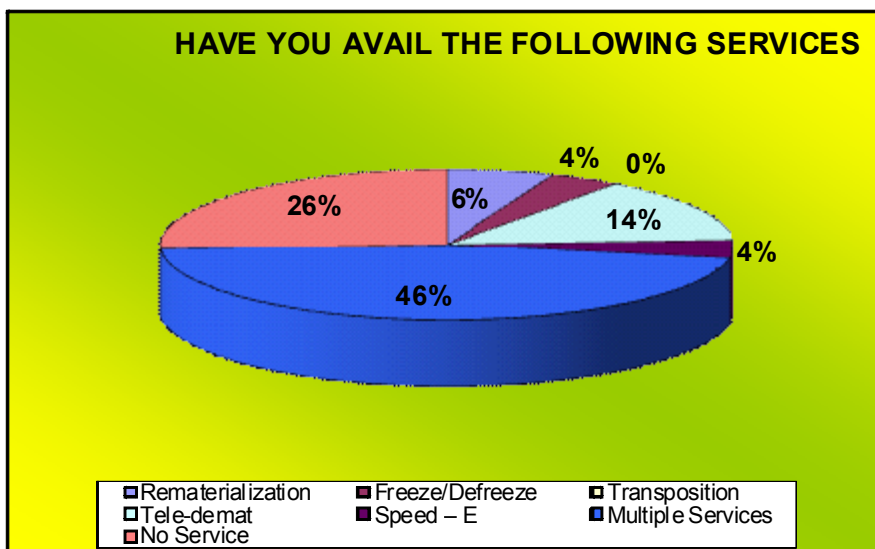
The above analysis shows that the major portion of the investors, which is 40% of the total area, has said that their banking depository participants execute their delivery instructions on the same day, when the account is opened. Investors follow it, which is 30%, having the execution of their delivery instructions within 1 day after the account is opened.

The analysis clearly shows that only 8% investors out of the total, are getting their delivery instructions within few hours and the rest investors, which contributes to 22% of the total area, their DP's take at least two days to execute the delivery instructions. It shows that depository participants of minor portion of the investors are executing their delivery instructions in a very short period and there is a need for DP's to put in lot of effort to make fast their services.

6. Have you availed the following Services

Options	No. of Respondents	Percentage (%)
Rematerialization	6	6%
Freeze/Defreeze	4	4%
Transposition	0	0%
Tele-demat	14	14%
Speed – E	4	4%
Multiple Services	46	46%
No Service	26	26%

Table No. 6



Graph No. 6

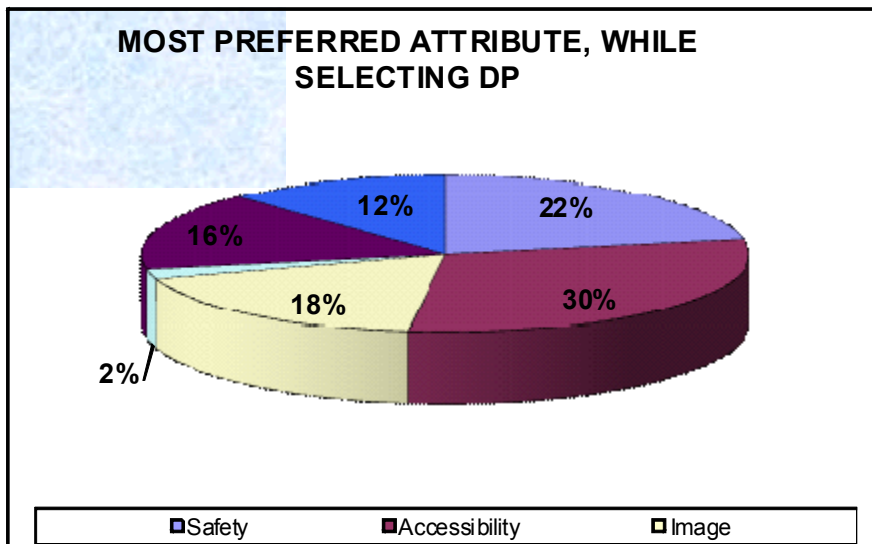
As in above, the major portion of the pie chart is covered with brown, “multiple services”, which contributes to 46% of the total area, followed by “no service”, which is 26%. This shows that majority of the investors are availing the above services more than one, and then, the investors who have not availed any of the above service follow it.

The above analysis shows that only 6% of the investors are getting the Rematerialisation facility from their DP's, which is followed by “investors having Freeze/Defreeze and Speed-E facility”, which is 4%. It also shows that no investor is availing the facility of Transportation from his or her DPs.

7. To which attribute, you prefer the most, while selecting DP's?
- a) Safety b) Accessibility c) Image
d) Cost Structure e) Quick settlement
f) Personalized Attention

Options	No. of Respondents	Percentage (%)
Safety	22	22%
Accessibility	30	30%
Image	18	18%
Cost Structure	2	2%
Quick Settlement	16	16%
Personalized Attention	12	12%

Table No. 7



Graph No. 7

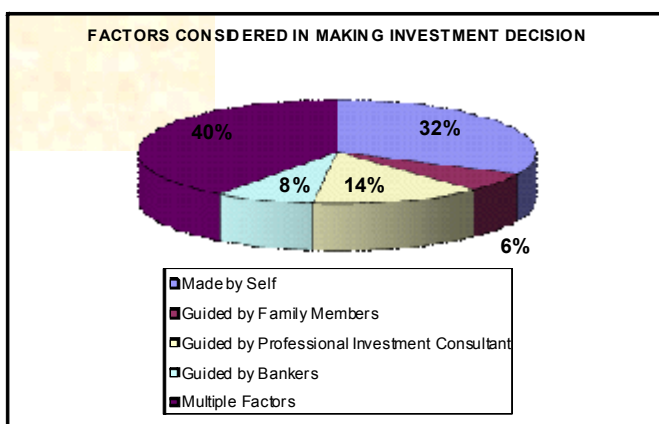
In the above analysis, the respondents were asked about the most preferred attribute, they prefer while selecting DP. The above analysis clearly shows that about 30% of the investors of the total area, prefers the “accessibility” to be the most important attribute in making decision regarding the choice of DP, followed by “safety” attribute, which is 22%. For some investors, Image of DP is more important than any other attribute, which contributes to 18% of the total area whereas 16% investors prefer “Quick settlement” to be the most important attribute. The analysis indicates that only 12% investors prefer “personalized attention” and rest 2% prefer “cost structure” attribute to be the most important.

The analysis shows that investors want convenience and therefore, large number of investors prefer “easy accessibility” to be the most preferred attribute amongst all.

8. Factors considered in Making Investment Decision.

Options	No. of Respondents	Percentage (%)
Made by Self	32	32%
Guided by Family Members	6	6%
Guided by Professional Investment Consultant	14	14%
Guided by Bankers	8	8%
Multiple Factors	40	40%

Table No. 8



Graph No. 8

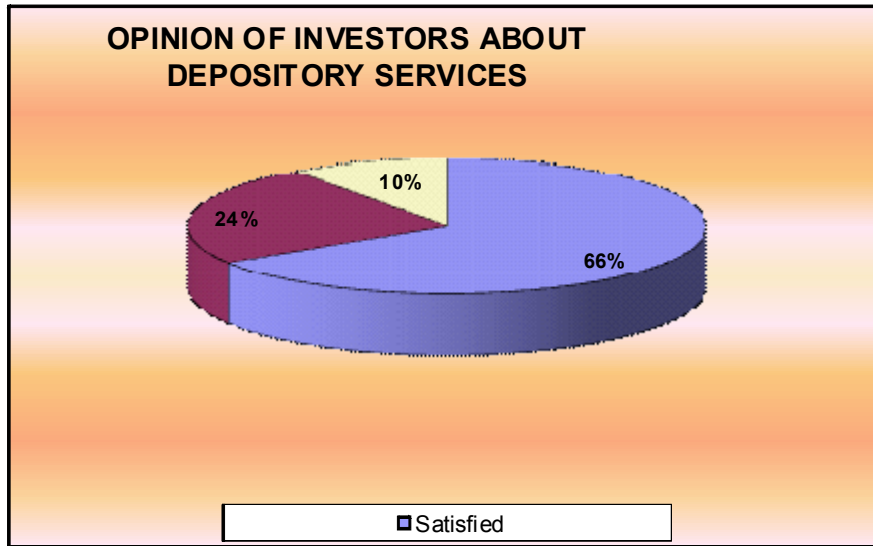
In the above table, respondents were asked about various factors that they consider while making investment decision. The above graph shows that about 40% of the investors, that covers the major portion of the total area, consider multiple factors out of above, rather than taking only one. It is followed by “those persons”, who take investment decision made by self, which is 32%, and then, “those persons” who take decision under the guidance of professional investment consultants, which is then, followed by 8% and 6% of guidance from bankers and family members respectively.

This analysis shows that major portion of investors consider the guidance of all, i.e. family members, professional Investment consultants and their bankers as well as made decision on their own.

9. Opinion about Services provided by Depository Participants.

Table No. 9

Options	No. of Respondents	Percentage (%)
Satisfied	66	66%
Some what satisfied	24	24%
Not satisfied	10	10%



Graph No. 9

The major portion of the pie chart is covered with blue, "satisfied respondents" which contributes to 66% of the total area, followed by "somewhat satisfied respondents", which is 24% and "not-satisfied respondents", which is 10% of the total area, with the depository services provided by their DP's.

This shows that majority of the people is satisfied with the depository services. This question was meant to know the perception of various investors towards the depository services provided by their DP's.

RESPONSES OF INVESTORS REGARDING THE IMPORTANCE OF FOLLOWING FACTORS

1. Custody charges :-

This fee is charged by Depository Participants from their customers monthly and depends upon the number of securities (ISIN) held in the account. In generally ranges between 0.5 to Rs 1 per ISIN per month. DPS will not charge custody fees for ISIN on which have paid one-time custody charges to the depository.

Table 10

Response	(+2) Most Important	(+1) Important	(0) Neither Important nor unimportant	(-1) Unimportant	(-2) Most Unimportant	Weighted Average
ICICI	13	4	2	1	0	1.45
HDFC	14	3	2	1	0	1.50
IDBI	12	5	2	1	0	1.40
AXIS	14	5	1	0	0	1.65
KMB	15	2	2	1	0	1.55

The table shows that majority of our respondents are of the view that custody charges are very important factor while opening of demat account in a bank. The weighted average of 1.65 for AXIS Bank and 1.55 for KMB and 1.50 for HDFC Bank confirms the same.

2. Transaction fees :-

This transaction fee is charged for crediting/debiting securities to and from the account on a monthly basis. While DPS, Such as SBI, charge a flat fee per transaction, But some depository Participant like HDFC and ICICI charge the fee according to transaction value, Subject to minimum account.

Table 11

Response	(+2) Most Important	(+1) Important	(0) Neither Important nor unimportant	(-1) Unimportant	(-2) Most Unimportant	Weighted Average
ICICI	13	3	2	2	0	1.30
HDFC	12	5	2	1	0	1.40
IDBI	13	4	2	1	0	1.45
AXIS	14	4	0	2	0	1.30
KMB	15	3	1	1	0	1.60

The majority of respondents strongly opine that transaction fees significantly influence the number of times they Sale/Purchase the Securities through a Particular DP. The weighted Average which ranges from 1.60 br KMB an 1.35 of ICICI Bank is at reckonable to support their view regarding transaction fees.

3. ACCOUNT MAINTENANCE CHARGES :-

This fees is charged annually by most of the Depository Participants. These charges are very nominal and almost in every bank these ranges from Rs. 250 per annum to Rs. 300 per annum. According to the comparative study IDBI charge lowest from their customers.

Table 12

Response	(+2) Most Important	(+1) Important	(0) Neither Important nor unimportant	(-1) Unimportant	(-2) Most Unimportant	Weighted Average
ICICI	9	4	4	2	1	0.90
HDFC	8	3	6	3	0	0.80
IDBI	10	2	5	2	1	0.90
AXIS	11	5	1	1	2	1.10
KMB	10	4	2	1	3	0.85

The weighted average shows that respondents are almost natural over the issue of Account maintenance charges charged by different Depository Participants. But whatever is the weighted average it is in favour of this argument that these charges effect the decision.

4. Remat charges :-

This charges are charged by DPS for reconversion of electronic securities into Paper form. Almost every bank charged same fees. But the reconversion depends upon the need and preference of Investors.

Table 13

Response	(+2) Most Important	(+1) Important	(0) Neither Important nor unimportant	(-1) Unimportant	(-2) Most Unimportant	Weighted Average
ICICI	9	5	4	0	2	0.95
HDFC	8	6	3	1	2	0.85
IDBI	7	7	2	1	3	0.70
AXIS	6	5	3	3	3	0.40
KMB	5	8	5	1	1	0.75

The respondents are almost neutral over the issue of Remat charges. Because in most of the cases it depends upon the need of the investors. The lowest weighted Average i.e 0.40 in case of top leading DPS shows neutral response of respondents.

RECOMMENDATIONS AND SUGGESTIONS :-

- (1) Depository services should be more transparent, systematic and fast, due to this investors can easily understand the depository system and they can easily avail them.
- (2) SEBI should also set up more working groups. Comprising NSDL for the progress in dematerialized trading.
- (3) The most important reason of non popularity of this system is lack of awareness on the part of investors steps should be taken to create public confidence in such electronic trading by adopting mode of media, publication of studies, periodical review functioning of depositories.
- (4) A proper network of DP's should be designed in such a way that it should cover not only major locations but small cities also.
- (5) Option to have securities in physical term should be abolished and it should be made mandatory to have securities in Demat form.
- (6) Although SEBI is superceding authority but SEBI and RBI should be given more powers to make or modify statutory rules and regulations in this context to bring effectiveness and efficiency in system.
- (7) There should be no or less custody or annual maintenance charges charged by DP's from individual investors.

RECENT TRENDS IN ADMINISTRATION OF DEPOSITORY SYSTEM

- (1) Due to the huge benefits of dematerialisation to investors, department of posts (DOP) in association with NSDL, has decided to introduce the facility of holding National Saving Certificate VIII issue and KVP (Kisan Vikas Patra) in Demat form.
- (2) According to a report by the securities market infrastructure leveraging expert (SMILE) Task force, "The depository modal could become an alternative to the existing collection center model and every mutual fund holder should have the option of moving to the depository system.
- (3) SEBI has notified the SEBI (central data base of market participants) regulation 2003 for the creation of a CDMP and investors with unique identification. (MAPIN data base).
- (4) SEBI advised to DP's to diligently follow the instructions laid down by SEBI for safety, integrity and efficient functioning of depository system.
 - (a) Proof of identity (PUI) and proof of address (PUA) for opening a Demat Account.
 - (b) Exemption of DP's from giving hard copies of transactions statements to Beneficial owners (BO's)
- (5) CDSL has introduced account freezing facility.
- (6) Establishment of internet network.
- (7) CDSL enters into a tie up with MCX (multi commodity exchange of India Ltd.)
- (8) Internet based tax information.
- (9) PAN card is mandatory.

BIBLIOGRAPHY

1. Bal Kishan & Nartass, *Securities market in India*, Krishna Press, New Delhi, 1998.
2. Krishan, S.S. Narta, *Security Market in India*, Kanishka Publishers Distributors, 1998.
3. Punithavathy Pandian, *Security Analysis and Portfolio Management*, Vikas Publications, Sixth Edition, 2005.
4. S.C. Gupta, *Fundamental of Statistics*, Himalaya Publishing House, 2002.

Websites :

www.sebi.gov.in

www.idbi.com

www.axisbank.com

www.hdfcbank.com

www.icici.com

www.kotak.com