

# A study of Demat account securities and it's processes: paradigm shift from traditional approach to Modern Dematerialization

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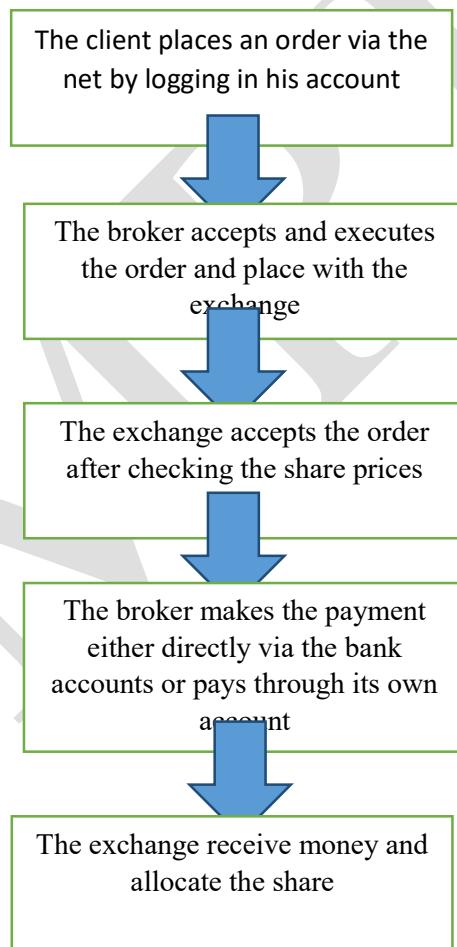
**Abstract:-**Shares and securities are maintained in electronic form through a Demat Account. Having a Demat Account is mandatory for conducting transactions in the stock market. Entry into the stock market occurs either through the primary market, where companies issue new securities to the public for the first time via an Initial Public Offering (IPO), or through the secondary market, where investors trade existing shares of listed companies. Once the account is set up, investors can purchase securities either through a broker or via online trading platforms. To open a Demat Account, one must contact a registered Depository Participant (DP). A list of authorized DPs is available on the official websites of National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL). Interested individuals can either download the account opening form from the DP's website or collect it from their office.

**Introduction:-** A Demat account (short for *Dematerialized account*) is used to hold shares and other securities in electronic form. It eliminates the need for physical share certificates, making trading safer and more convenient. Mandatory for stock market investments in India, a Demat account is linked to a trading account and a bank account for seamless transactions. It helps investors buy, sell, and store financial instruments like equities, bonds, ETFs, and mutual funds. Regulated by depositories like NSDL and CDSL, Demat accounts can be opened through brokers such as Zerodha, Groww, and Angel One. Dematerialization refers to the process of converting physical share certificates into electronic form. Before the adoption of dematerialization, the Indian stock market faced several challenges, including delays in share transfers, risks of forgery, and inefficiencies in handling and storing physical certificates. Dematerialization has significantly addressed these issues by streamlining transactions and reducing processing time compared to traditional physical methods. To eliminate these inefficiencies, the transition from physical to electronic handling of securities was deemed essential. Recognizing this need, the Indian market introduced the dematerialization system. Under the Depositories Act, 1996, investors were given the option to hold their securities in either physical or electronic form. The process of converting physical shares into digital format is known as dematerialization, or simply demat. A depository functions similarly to a bank, but instead of holding money, it holds an investor's securities in electronic form at the investor's request, facilitated through an intermediary known as a Depository Participant (DP). A depository is a company incorporated under the Companies

Act, 1956 and registered under Section 12(1A) of the Securities and Exchange Board of India (SEBI) Act, 1992. As defined in Section 2(e) of the Depositories Act, 1996, to access depository services, an investor must open a demat account through a registered DP. These services primarily operate in the secondary market, commonly referred to as the stock market, which consists of 23 recognized stock exchanges. This organized segment of the market is regulated by SEBI, and trading in securities is carried out through registered intermediaries such as stock brokers and sub-brokers. Two types of exchanges operate in Indian market Bombay stock exchange (BSE) and National Stock exchange (NSE).

**Keywords:-** Demat account, Depository, NDSL & CDSL

#### Procedure for online trading



#### Review of literature:-

Raju and Patil (2001) highlighted the advancement of depository systems in India, focusing on cost reductions, progress in dematerialization, and comparative performance across various countries. They observed a substantial decline in settlement and custody charges. The authors described the growth of depositories in India as 'rapid,' attributing it to factors such as the internet, globalization, market convergence, institutional consolidation, and the emergence of cross-border depositories. According to their analysis, India's depository system demonstrated commendable growth compared to other selected nations and showed significant potential for further development.

Olekar and Talawar (2013) try to explore key issue of Online trading and dematerialization are two emerging concepts in the stock market, influenced by personal, technical, business, and economic factors. The interaction of these factors necessitates an in-depth examination of market patterns, processes, procedures, and performance. This study aims to identify and explain the key concepts of dematerialization and online trading, along with their modes of operation

Rajan and Manikantan (2015) analyzed the basic services provided by depositories in India and compared the performance of the two major depositories. Their findings revealed that although CDSL was established in 1999, three years after NSDL, it offered services comparable to those of NSDL. Moreover, CDSL outperformed NSDL in terms of average growth across key indicators such as active depository participants, DP locations, demat custody value, dematerialized quantity, and the number of beneficial owner accounts.

Bajwa (2016) emphasized that the expansion of capital markets plays a crucial role in driving overall economic growth. The growth of capital markets—reflected through increased primary issuances, higher market capitalization, and rising market indices—depends significantly on the development of depositories, which serve as the backbone of the capital market system.

Bhagwat and Omre (2018b) examined the growth and significance of depositories within the Indian financial system. Their study showed that dematerialization has further modernized capital markets, playing a crucial role in enhancing returns and liquidity while reducing stock market volatility. Consistent with the findings of Babu et al. (2016), their results indicated that sustained positive average annual growth contributes to the overall expansion of capital markets.

Choudhary, B. (2024) explain in his research that the emergence of Demat accounts significantly strengthened the participation of retail investors in India, thereby promoting greater financial inclusion. Furthermore, this development contributed to improving financial literacy among the population, although certain limitations persist.

Surendar, G. (2015) try to find out the level of understanding of dematerialization of shares among the retail investors in India. He also focus on procedure, benefit, importance, of demat securities.

Karnati, S. (2015) Explain the regulatory structure governing this system was instituted through the Depositories Act, 1996, along with subsequent regulations issued by SEBI. Nevertheless, despite its numerous advantages, a key question remains regarding the extent of investor awareness about Demat accounts and their associated benefits.

**Research Methodology:-** This study is explorative in nature and it aim identifying how dematerialization is better to traditional approach and also benefit of Demat and online trading. This study is based on primary data collected through structured questionnaire. The data is collected from investors from five major cities from Madhya Pradesh i.e. Indore, Bhopal, Jabalpur, Gwalior, and Sagar

**Research Objective:-** To study the awareness level of various concepts of demat and online trading.

To identify the benefits of demat account and online trading

To know the customer opinion about the investment

To analyze the investment option preferred by the clients

**Sample Design:-** Retail investors from five cities of Madhya Pradesh i.e. Indore, Bhopal, Jabalpur, Gwalior, and Sagar

**Sample Size:-** Each city 150 data collected means 750 sample size and researcher received total response 678 and actual used 600 on the convenient sampling techniques

**Tools for data collection:-** In this study used structured questionnaire

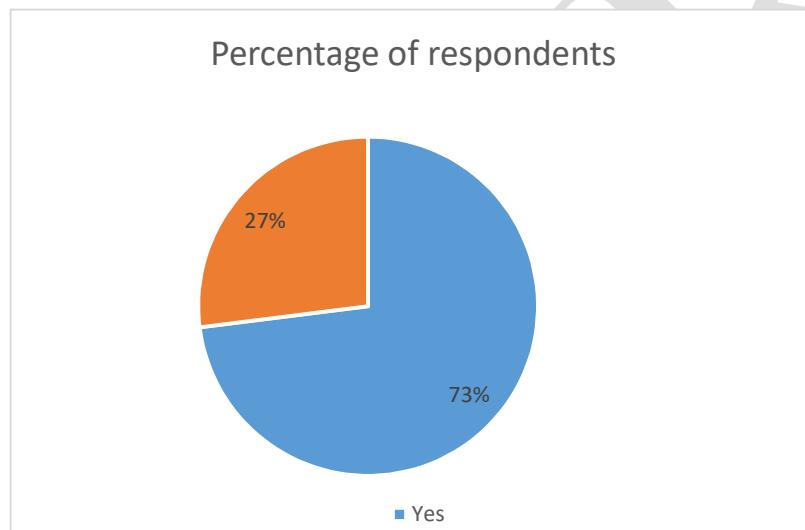
**Data Analysis Tools:-** The data is analyzed by employing simple tools like pie charts.

Research framework:-

**Data analysis and interpretation:-**

Q.1 Do you have knowledge of stock market

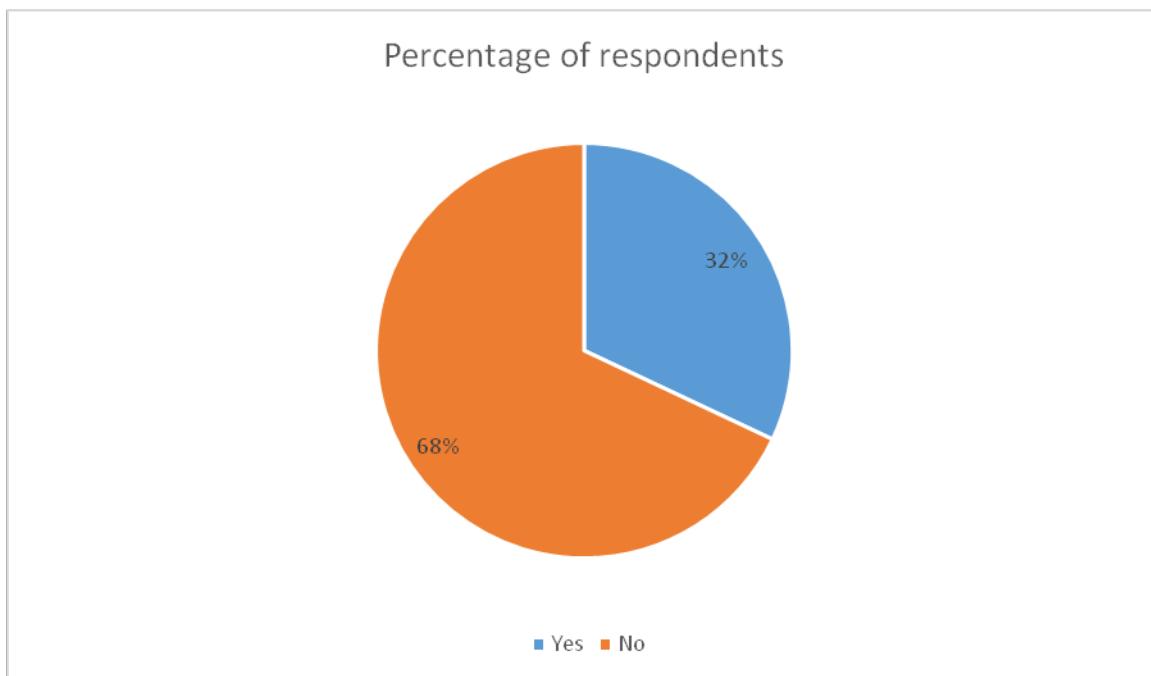
Knowledge of stock market	Percentage of respondents
Yes	73%
No	27%



Interpretation: In this pie chart shows that most of investors have the knowledge of stock market this will show that have financial literacy.

Q.2 Are you aware depository system?

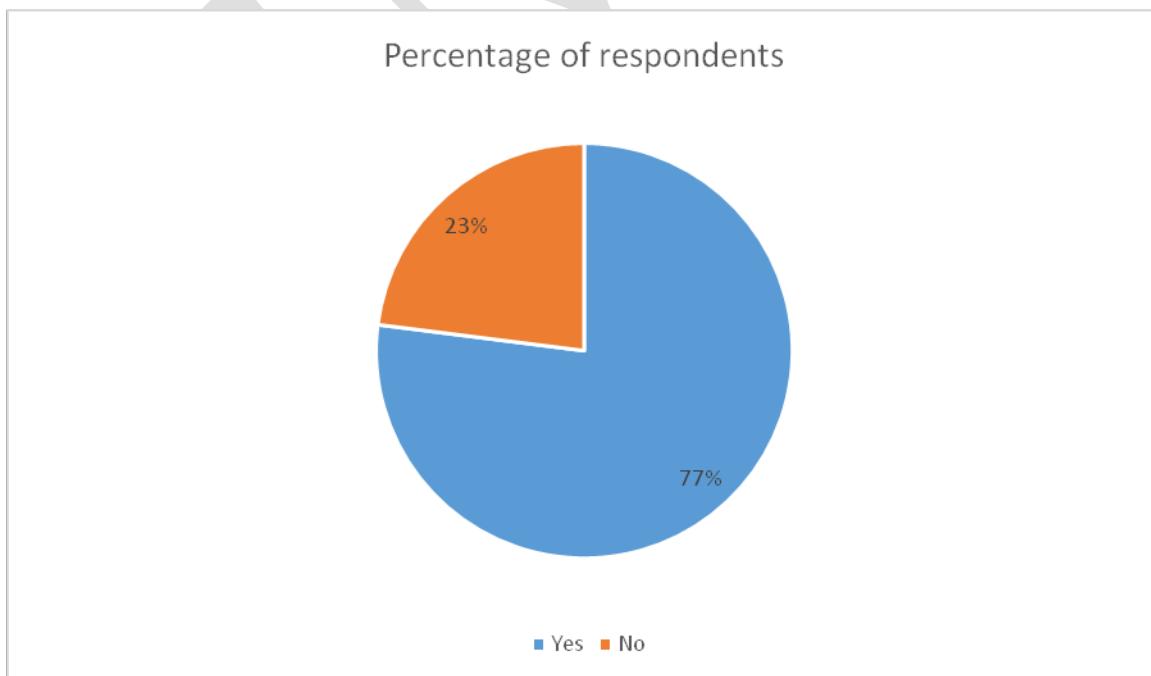
Awareness of Depository System	Percentage of respondents
Yes	32%
No	68%



**Interpretation:-** Most of the investor does not aware about depository system. Only 32% investor knows about Depository.

Q.3 Are you aware of demat account

Awareness of demat account	Percentage of respondents
Yes	77%
No	23%

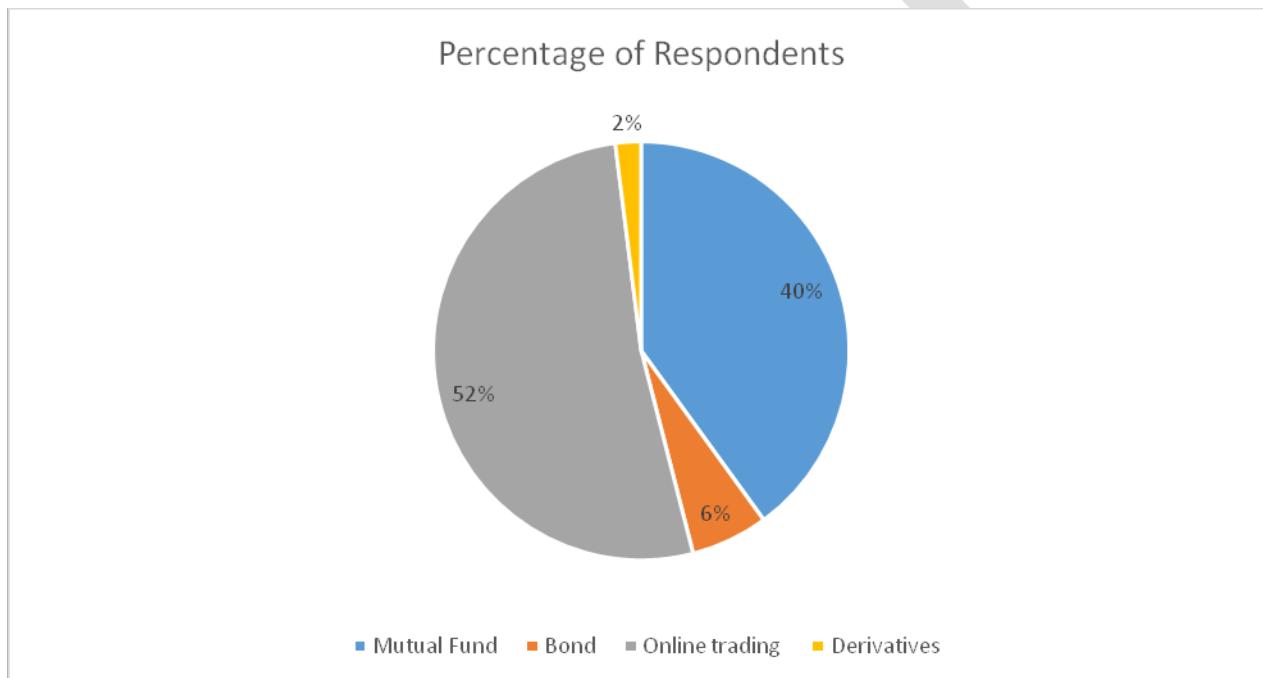


**Interpretation:-**

The above pie chart clearly shows that 77% are aware and only 23% are not aware about demat account.

Q.4 In which of these financial instruments do you invest into?

Financial Instruments	Percentage of respondents
Mutual Fund	40%
Bond	06%
Online trading	52%
Derivatives	02%

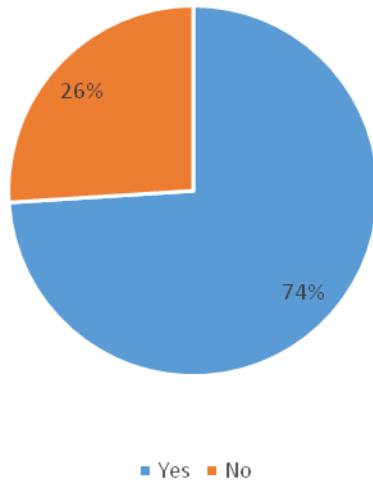

**Interpretation:**

This shows that although that online trading is on the rise yet, the most favoured investment continues to be in the share market. So, with a more transparent system, investment in the stock market can definitely be increased.

Q.5 Are you aware of online share trading?

Aware of online share trading	Percentage of respondents
Yes	74%
No	26%

Percentage of Respondents

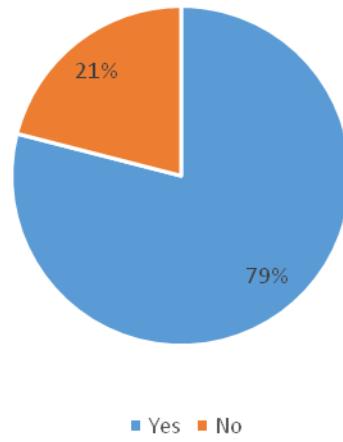
**Interpretation:**

With the increase in financial education, the awareness towards online share trading has increased by leaps and bounds. This awareness is expected to increase further with the increase in Internet education.

Q.6 Did you heard about brokerage firm

Awareness of brokerage firm	Percentage of respondents
Yes	79%
No	21%

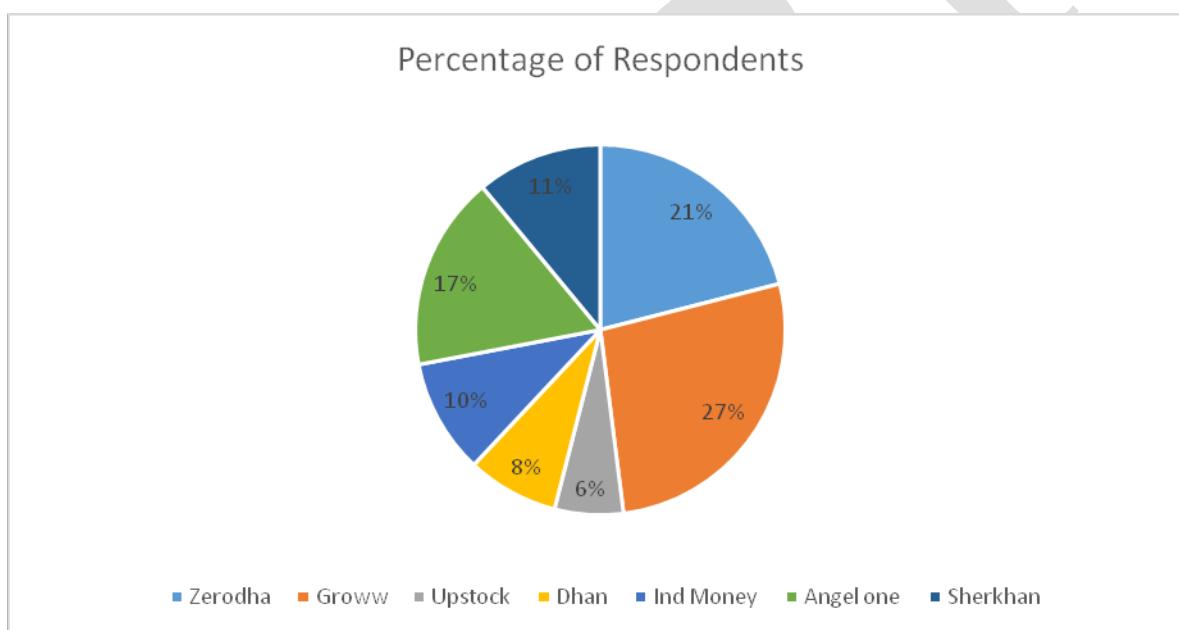
Percentage of Respondents

**Interpretation:**

With the increase of awareness of investment, knowledge of brokerage firm also increased. This will indicate to respondents have all the information related to brokerage house.

Q.7 Which brokerage house give maximum facilities towards your investment

Company Name	Percentage of Respondents
Zerodha	21%
Groww	27%
Upstock	6%
Dhan	8%
Ind Money	10%
Angel One	17%
Sherkhan	11%



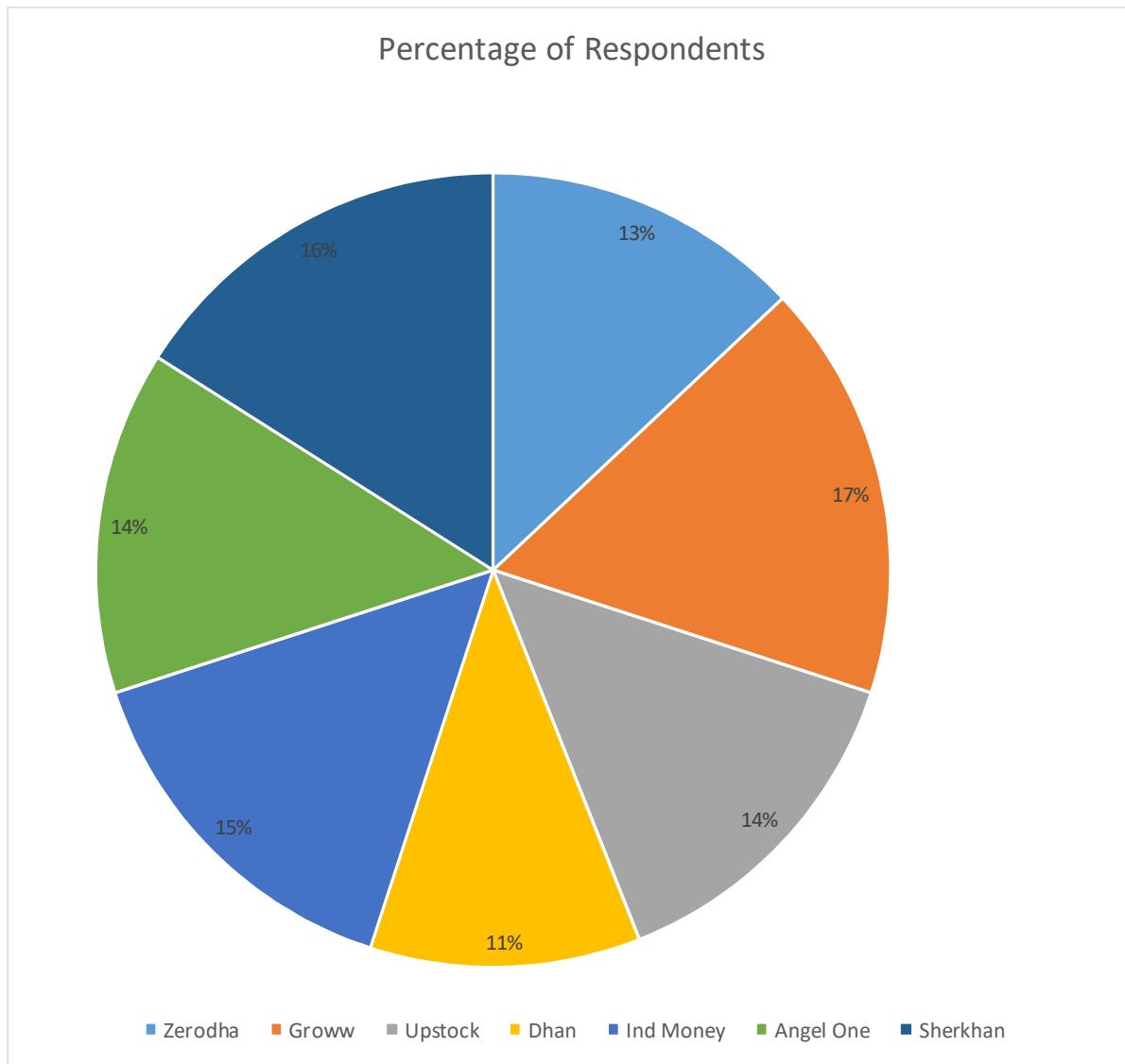
#### Interpretation:

In this pie chart shows that respondent feels maximum facilities by Groww brokerage house with 27%, then followed by Zerodha 21% and Angel one 21%.

Q.8 Which company provide you a large number of products and service

Company Name	Percentage of Respondents
Zerodha	13%
Groww	17%
Upstock	14%

Dhan	11%
Ind Money	15%
Angel One	14%
Shekhan	16%



#### Interpretation:

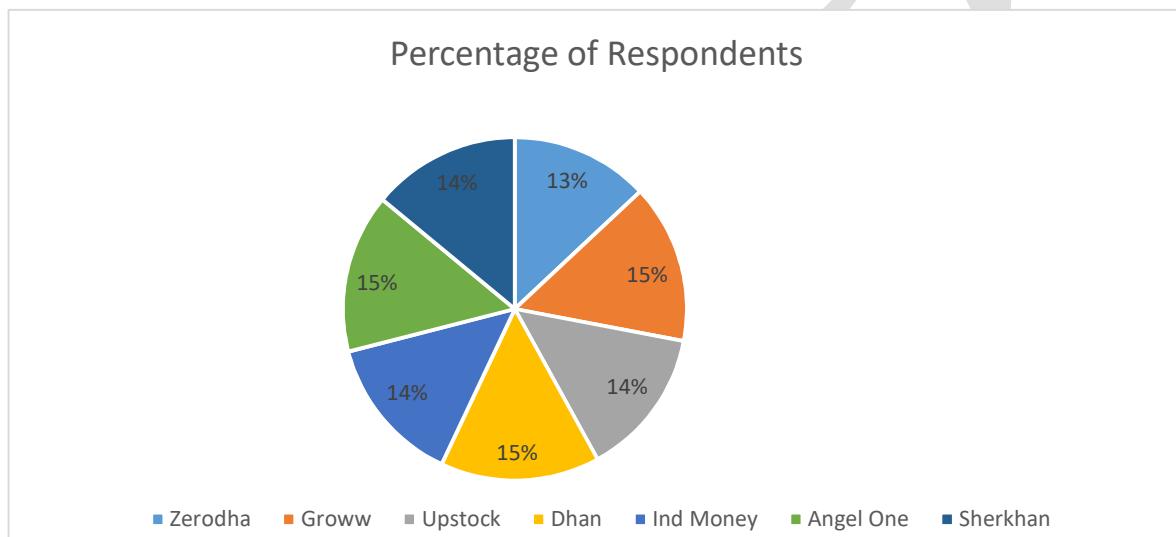
Result shows that all most all brokerage house have similar products and services which is offered to the customers.

So, that investor not discriminate about the brokerage house in terms of products and services.

Q.9 Which brokerage house have less trading charges?

Company Name	Percentage of Respondents

Zerodha	13%
Groww	15%
Upstock	14%
Dhan	15%
Ind Money	14%
Angel One	15%
Sherkhan	14%

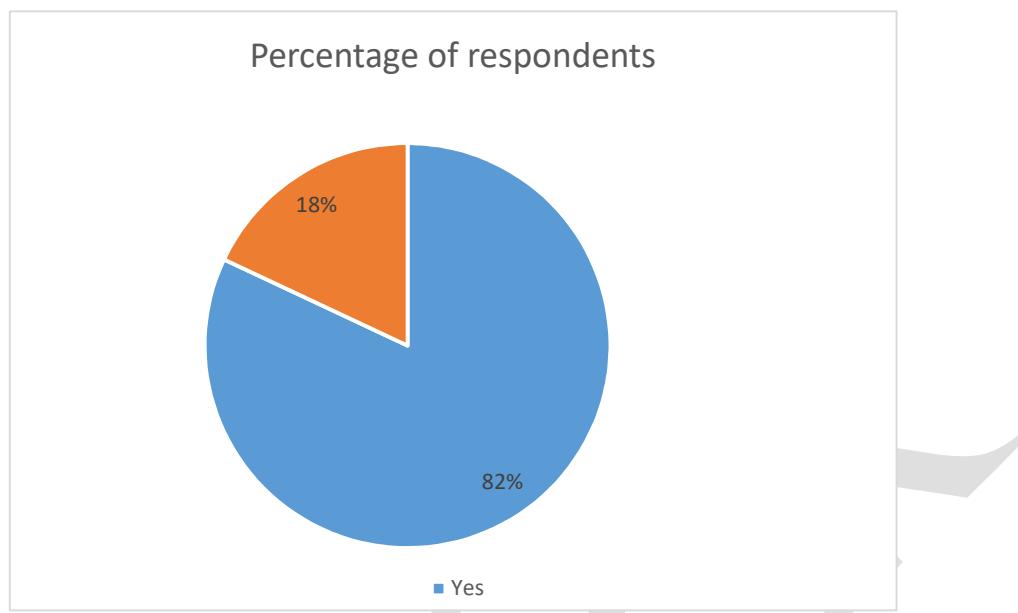


#### Interpretation:

This pie chart shows that all brokerage house will charge similar to customer. So there is no difference in terms of trading charges.

Q.10 Did you get information about your transactions?

Information about your transaction	Percentage of respondents
Yes	82%
No	18%

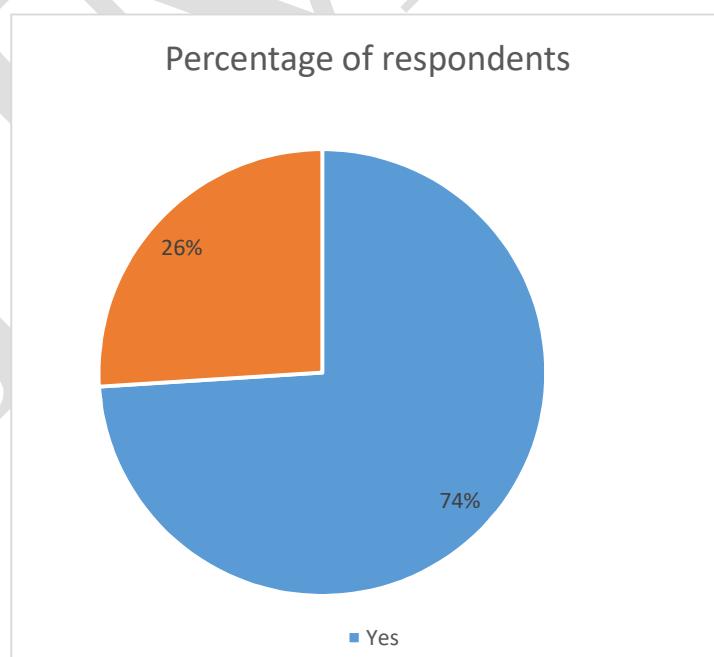


**Interpretation:-**

In this pie chart shows that 82% got information of the investment or every transactions.

Q.11 Did you think Demat is safe and secure?

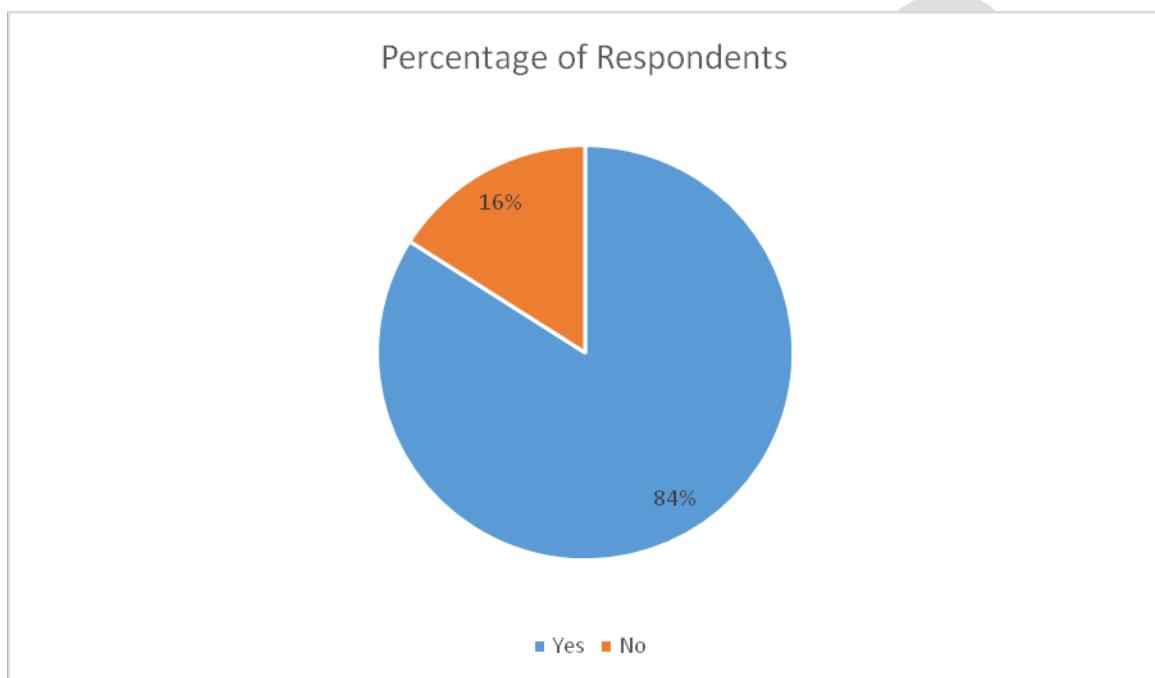
Demat is safe and secure	Percentage of respondents
Yes	74%
No	26%



Interpretation:- Most of the investor think that demat is more secure and safe compare to traditionally in the form of paper.

Q.12 How many of you satisfy with the level of current broker?

Satisfaction level among customer with current broker	Percentage of Respondents
Yes	84%
No	16%



**Interpretation:**

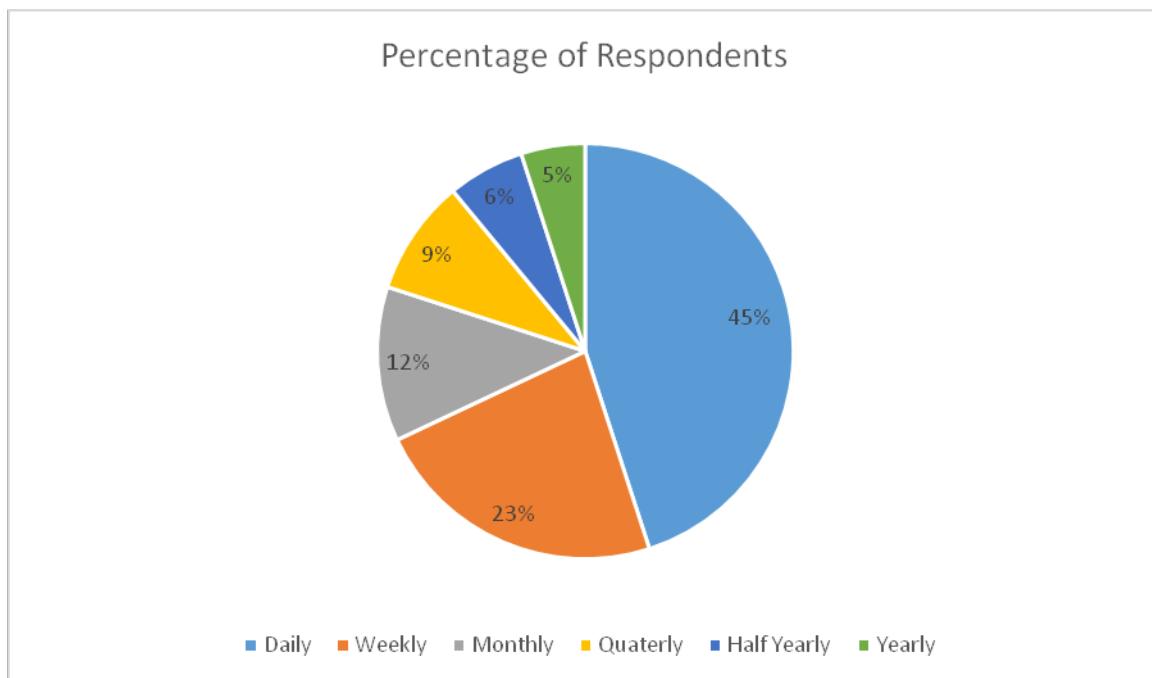
The pie chart accentuates the fact that strategic marketing, today, has gone beyond only meeting sales targets and generating profit volumes. It shows that all the competitors are striving hard not only to win the customers but also to make them brand loyal by generating customer satisfaction.

Q.13 How many of do trading in which time interval

- A) Daily
- B) Weekly
- C) Monthly
- D) Quarterly
- E) Half Yearly
- F) Yearly

Frequency of trading	Percentage of Respondents
Daily	45%

Weekly	23%
Monthly	12%
Quarterly	9%
Half Yearly	6%
Yearly	5%



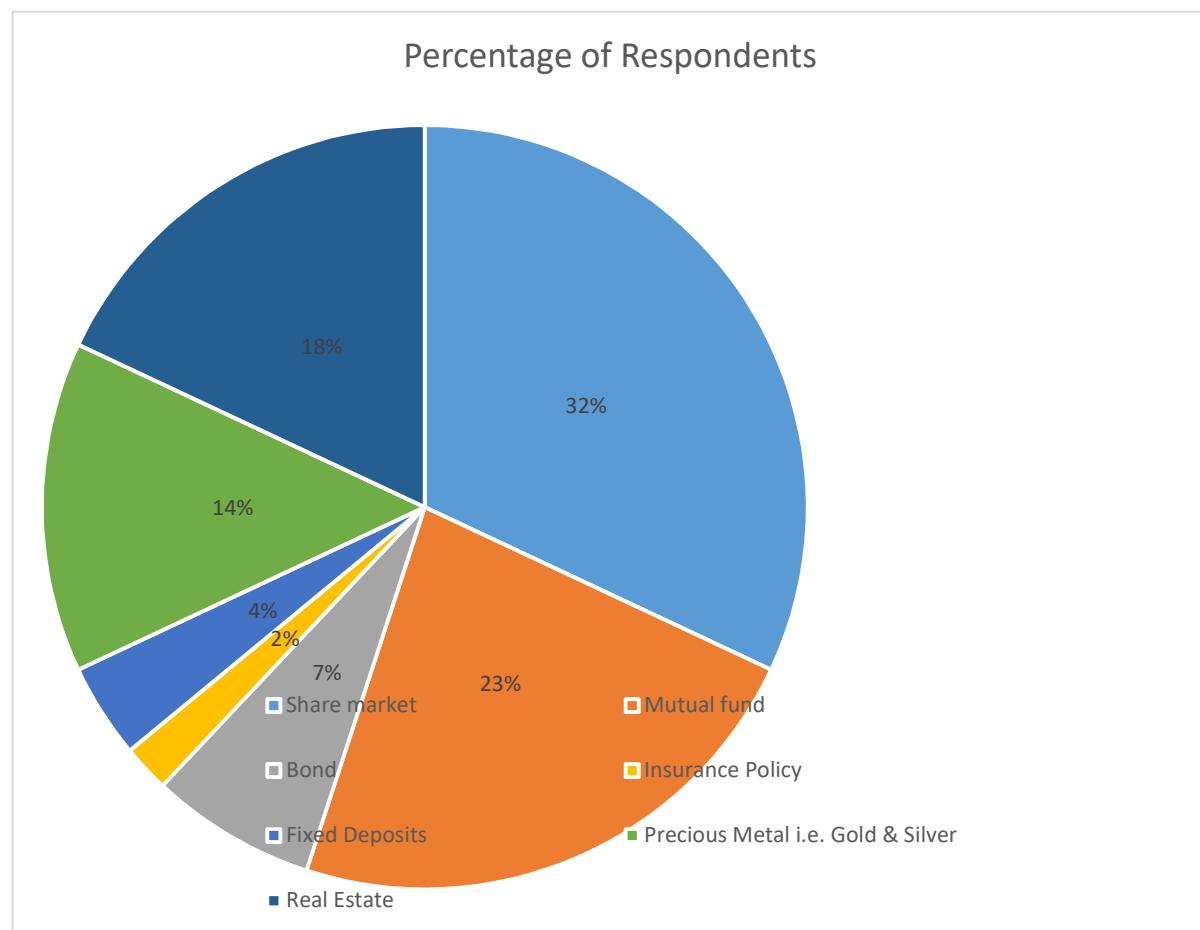
#### Interpretation:

In this Pie chart clearly shows that mostly investor trade on daily basis followed by weekly basis.

Approx. half sample size of agree to trade routinely.

Q.14 According to your perspective which investment give you maximum return?

Type of instrument	Percentage of Respondents
Share market	32%
Mutual Fund	23%
Bond	7%
Insurance policy	2%
Fixed Deposits	4%
Precious Metals i.e. Gold & Silver	14%
Real Estate	18%

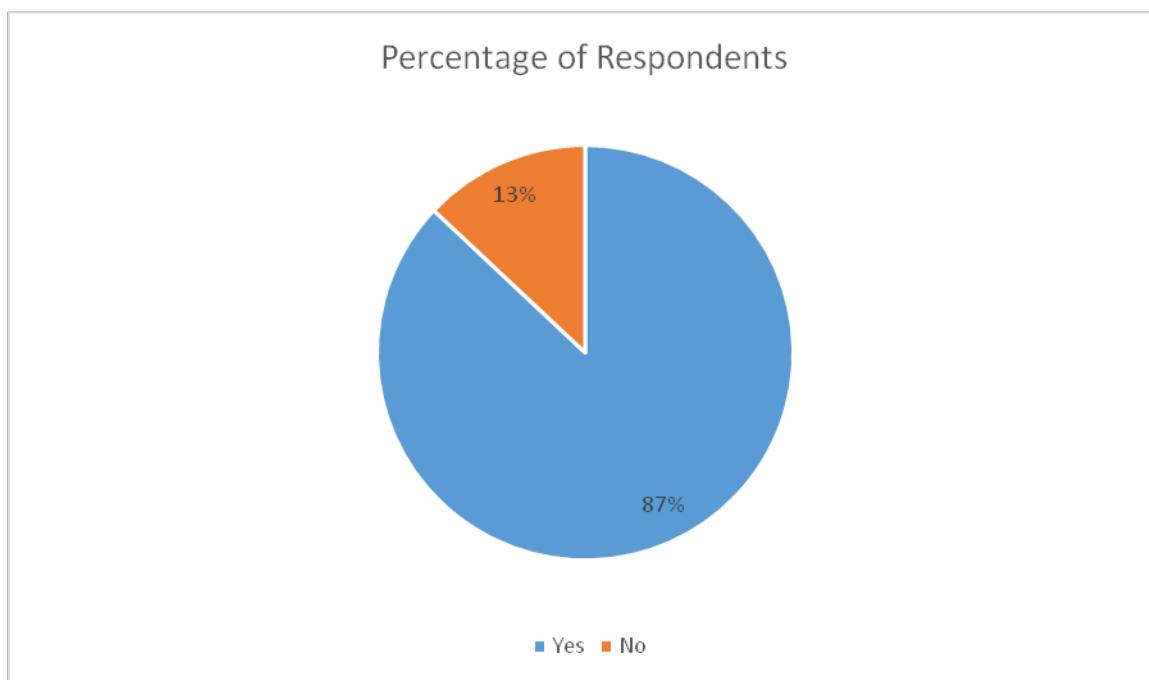


#### Interpretation:

As of today people believe in high return. So Trading of shares are the best option for them as they get good return after period of time in keep the view of face high risk.

Q. 15 Online transaction or UPI does help to trading stocks

Online transaction	Percentage of Respondents
Yes	87%
No	13%

**Interpretation:**

This pie chart clearly shows that 87% investors feel that UPI does help to buy or trading stock only 13% investor does not feel UPI help in any manner

**Results and finding:-** The introduction of dematerialization, the stock market has become more transparent, thereby attracting an increasing number of investors over time. With a continuous increase in transaction volumes, depository participants (DPs) are likely to reduce charges related to the opening and maintenance of demat accounts. It has been observed that banks generally levy lower service charges compared to other types of depository participants. Some banks also offer demat services at lower fees than securities companies. However, when a large number of users access online platforms simultaneously, transaction speed may be adversely affected. Additionally, the one-day rolling settlement system exposes speculators who do not maintain sufficient funds or securities with their DPs to higher levels of risk. Certain securities have yet to implement Interactive Voice Response (IVR) facilities and online demat services. Although online trading ensures client privacy, the absence of real-time market trends available in physical trading rooms may disadvantage many online traders. Moreover, investors engaging in online trading must possess adequate analytical skills to effectively interpret information disseminated by companies through digital platforms.”

**Benefits:-** Transacting through the depository system offers several advantages over the traditional method of dealing with physical share certificates. Trading in the dematerialized segment completely eliminates the risk of bad deliveries, thereby saving both time and costs associated with rectification and follow-up. The reduction in delivery-related risks has also led many brokerage firms to lower brokerage charges by up to 0.5 percent. Additionally, electronic transfer of shares enables investors to save 0.5 percent in stamp duty. Investor's further benefit by

avoiding expenses related to courier services, notarization, and repeated follow-ups with brokers in cases where shares are returned due to company objections.

In the event that physical share certificates are lost during transit or become mutilated or misplaced, investors are often required to incur expenses of at least ₹500 for procedures such as executing indemnity bonds and placing newspaper advertisements to obtain duplicate certificates. These costs are completely eliminated when shares are held in dematerialized form. Furthermore, investors receive bonus and rights issues directly as credits to their depository accounts, thereby removing the risk of loss in transit. Investors may also benefit from lower interest rates on loans taken against dematerialized shares compared to loans secured by physical shares, potentially resulting in interest savings ranging from approximately 0.25 percent to 1.5 percent, as already announced by some banks.

The depository system significantly reduces the handling of large volumes of physical paper. It also provides investors with periodic statements detailing their holdings and transactions, thereby enhancing transparency and control. Furthermore, the Reserve Bank of India (RBI) has increased the loan limit against dematerialized securities used as collateral to ₹2 million per borrower, compared to ₹1 million per borrower for loans secured by physical securities. In addition, the RBI has reduced the minimum margin requirement to 25 percent for loans against dematerialized securities, whereas the margin requirement for loans against physical securities remains at 50 percent.

**Suggestion and conclusion:-**The Indian stock market has emerged as a vital financial intermediary, facilitating efficient allocation of resources, strengthening the Indian economy, and enabling investors to reap the benefits of stock market participation. Its growing significance is reflected in increased fund mobilization and a rising number of investor accounts. The above study prove that investor shift from traditional approach to modern demat account and got benefits through technology adoption and UPI integration in this trading opportunities. This transition has facilitated expanded investor participation while simultaneously underscoring the need for more robust, transparent, and efficient market mechanisms. The introduction of dematerialized trading has fundamentally restructured market operations, conferring significant benefits upon investors, intermediaries, and corporate entities. A critical milestone in this transformation has been the establishment of depository services, which enable investors to access the capital market in a secure, efficient, and seamless manner.

**Limitation:-** I have selected sample from only Madhya Pradesh. So, Sample may be not true representation of whole population. Time is limiting factor for this study

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