**Educational Administration: Theory and Practice**
2024, 30(9), 1192-1195
ISSN: 2148-2403
https://kuey.net/

**Research Article**

# Factors Influencing The Choice Of Investors For Opening Demat Account While Selecting Depository Participants

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**Citation:** Dr. Syed Azhar, et.al (2024). Factors Influencing The Choice Of Investors For Opening Demat Account While Selecting Depository Participants, *Educational Administration: Theory and Practice*, 30(9) 1192-1195
Doi: 10.53555/kuey.v30i9.10726

**ARTICLE INFO**

**ABSTRACT**

The primary aim of this paper is to identify the factors that influence investors in Hyderabad when opening DEMAT accounts. This research relies on primary data collected through questionnaires. A purposive sampling method was employed, gathering responses from 300 individuals who invest in equities, mutual funds, the commodity market, as well as the currency and bullion markets. Factor analysis was used to examine the data. The results reveal that DEMAT account holders are particularly influenced by services offered by depository participants, including the settlement period, contract notes, and account information.

**Key words**: DEMAT, Depository Participant, Depository, and Investor Behaviour.

**JEL classification:** G 41, D 53

## Introduction:

A capital market is defined as the market for long-term funds where securities such as common stock, preferred stock, and bonds are traded. The primary market issues new and the secondary market issues existing securities in the capital market. (**David L. Scott, 2010**). Based on the movements on the stock market, we can estimate the country's economic condition. Therefore, it is economic indicator of the country. The stock market is acknowledged as a vehicle designed for speedy economic development all the way through mobilisation of available resources in a country (**Ahmed S, 2005**). In India, economic reforms, including those in the financial markets have started after 1991. The reforms in the financial markets included the increasing use of automation for transacting capital market transactions and introduction of the Depository System in 1996. These measures have made it easier to buy or sell shares. The Depository System works like a bank account – when shares are bought, the figures are credited to the account of the depositor; when shares are sold, the account is duly debited. Today, there is increasing competition among the depository participants.

## Literature Review

Aggarwal and Dixit (1996) and Vijay Gaba (2000) have focused on the legal framework of the Depository System in India. Hurkat and Ved (1999) explained the role of the Depository System in many advanced countries. They also analyzed the services offered by NSDL, dematerialization, re-materialization, trading and fee or charges and compared the services offered by commercial banks and the depositories. Ravi Shah (2002) posited that NSDL and CDSL have changed the features of the Indian capital market. The main change was enabling of automation for clearing and settlement processes and systems in markets around the world (Rhee and Chang, 1992; Domowitz and Steil, 1999; Hasan et al., 2003). The move from an account period settlement in paper form only to a T+3 settlement in pure electronic form has been achieved in a record span of few years in India, whereas it took somewhere between 10-20 years in most of the developed countries.

Canon, (2008) stated that dematerialization has positively brought about much development in the outlay practice in India. Further Gagan Raj (2010) pointed out that during the decade and a half of these Reforms, regulators and policy makers have taken various initiatives for modernising and strengthening our capital market. Sultan Singh (2011) explained the factors affecting the decision-making of the investors in

depository services. The majority of the investors are aware that shorter settlement period, safety of securities with the depositories, attitude of the staff available with the DPs, timely services provided by the DPs to the investors, reduction in transaction cost, repatriation of sales proceeds of shares/debentures by NRIs are some factors that affects the decision-making of the investors in the depository system. Jain and Mehta (2012) identified the level of awareness of services offered by the depository participants in Rajasthan. Further Surendar G (2015) not only evaluated the need and procedure of dematerialization of shares in general but also investigated the level of understanding on dematerialization of shares among retail investors. Saravanakumar and Ganesan (2017) have identified factors inspiring Investors' to open Demat Account in the area of Sulur Taluk, Coimbatore District" using a sample of 100 respondents. Garrett ranking technique was used, the respondents have been asked to assign the rank for all the factors

The previous studies have covered issues like the depository system, the implications of the depository's ordinance, internal audit of depository participants, the Depositories Act, the auditing profession, the role of depositories in stock and capital markets, SEBI guidelines in the depository system, services provided by means of different depositories for ease of understanding of depositories in the direction of retail investors. However, no study was undertaken on the impact of the depository system on the Indian capital market. However, it was felt necessary to study the financial performance of depositories themselves. Hence, this writer conducted the study.

## Objective of the Study

The study's main purpose is to know the factors considered by DEMAT Account holders, while opening the DEMAT account with the depository participants in Hyderabad.

## Research Methodology

The study is exploratory in nature. The study analysed the factors influencing the choice of investors for the opening of a Demat account and the selection of the depository participants. The data was collected from a sample of 300 respondents, who were holding accounts and investing in shares. The sample selection was carried out using purposive sampling, and data collection was restricted to the city of Hyderabad in India. The data was analysed using a statistical tool known as "Factor analysis using SPSS Software".

### Data Analysis and Interpretation

To assess the reliability of the instruments, the Cronbach (1981) alpha coefficients for the total questionnaire and the five sub-scales were calculated and reported in the Table below. It can be seen that all items were having mean values in the range of 3.57 on the 5 point Likert scale, where a value of 2.5 could be regarded as the neutral point. This indicates that ratings from the respondents tend to lie on the positive side of the rating scale.

**Table 1: Reliability of Statistics**

| Cronbach's Alpha | No. of Items |
|---|---|
| .758 | 22 |

The Cronbach's alpha is the most commonly used index for assessing internal consistency (Kerlinger, 1986). It is generally accepted that in the initial stages of research on a proposed construct measure, reliability coefficients of 0.50 or higher are required. For more established scales, reliability should not dip below 0.60 (Nunnally, 1978). In the present survey, all sub-scales exhibited alpha coefficients greater than 0.50, resulting in an overall alpha for the entire questionnaire. The high alpha values across all five sub-scales confirm the homogeneity of the items within them and suggest an acceptable level of reliability.

To understand investors' opinions on the depository system, we identified 28 items, each representing a specific aspect of perception. We collected opinions using a five-point Likert scale. Factor analysis was then employed to reduce the number of variables into a more manageable set by identifying common dimensions among them. Variables that showed similar responses and high correlations were grouped under common factors, while those with no significant effect were excluded. The resulting factors needed to be distinct from one another.

To determine the suitability of the data for factor analysis, we conducted two tests: the Kaiser-Meyer-Olkin (KMO) test and Bartlett's test of sphericity. The KMO measure indicates the proportion of variance among the variables that might be accounted for by underlying factors. Generally, high KMO values suggest that factor analysis is appropriate for the data. If the value is less than 0.50, the results of the factor analysis may not be very useful.

**Table 2: Suitability of the Data for Factor Analysis**

| **KMO and Bartlett's Test** | | |
|---|---|---|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | 0.897 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 6004.079 |
| | Df | 231 |
| | Sig. | 0.000 |

The below Table shows the KMO value as 0.897 which signified that the factor analysis was useful with data and the sample was good enough for sampling. The overall significance of correlation, tested with the chi-square value for Bartlett's test of sphericity, was found to be 6004.079 and the significant value was 0.0000 which is significant at more than 99 percent level of confidence. This means that the data was very suitable for factor analysis.

**Table 3: Total Variance Explained**

| Component | Initial Eigen values | | | Extraction Sums of Squared Loadings | | | Rotation Sums of Squared Loadings | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 5.270 | 23.955 | 23.955 | 5.270 | 23.955 | 23.955 | 5.232 | 23.784 | 23.784 |
| 2 | 4.229 | 19.222 | 43.177 | 4.229 | 19.222 | 43.177 | 4.197 | 19.077 | 42.861 |
| 3 | 3.369 | 15.313 | 58.490 | 3.369 | 15.313 | 58.490 | 3.243 | 14.742 | 57.603 |
| 4 | 3.091 | 14.050 | 72.539 | 3.091 | 14.050 | 72.539 | 3.226 | 14.661 | 72.265 |
| 5 | 2.325 | 10.567 | 83.106 | 2.325 | 10.567 | 83.106 | 2.385 | 10.842 | 83.106 |
| 6 | .366 | 1.665 | 84.771 | | | | | | |
| 7 | .356 | 1.619 | 86.390 | | | | | | |
| 8 | .351 | 1.593 | 87.983 | | | | | | |
| 9 | .269 | 1.223 | 89.207 | | | | | | |
| 10 | .256 | 1.162 | 90.368 | | | | | | |
| 11 | .255 | 1.159 | 91.528 | | | | | | |
| 12 | .240 | 1.092 | 92.620 | | | | | | |
| 13 | .229 | 1.040 | 93.660 | | | | | | |
| 14 | .195 | .885 | 94.545 | | | | | | |
| 15 | .179 | .813 | 95.358 | | | | | | |
| 16 | .168 | .762 | 96.120 | | | | | | |
| 17 | .165 | .751 | 96.872 | | | | | | |
| 18 | .163 | .739 | 97.611 | | | | | | |
| 19 | .152 | .689 | 98.300 | | | | | | |
| 20 | .136 | .618 | 98.919 | | | | | | |
| 21 | .129 | .588 | 99.506 | | | | | | |
| 22 | .109 | .494 | 100.000 | | | | | | |
| Extraction Method: Principal Component Analysis. | | | | | | | | | |

Hence, all these standards indicate that the data was suitable for factor analysis. A principal component was employed for extracting factors. The second step in the process is to decide about the number of factors to be derived. The rule of thumb is applied to choose the number of factors for which 'Eigen values' greater than one are taken, by using principal component analysis method. All the factors with latent roots less than one are considered as insignificant and disregarded (Hair, 1995). The component matrix, so formed, is further rotated orthogonally using the varimax rotation algorithm. By performing factor analysis, 28 variables were first reduced to 22 variables and then further reduced to five factors, as shown in the Table below. Each component factor included some items which were otherwise called variables. Each variable represented the perception of investors about one particular aspect of the depository system. Only the five perceptual factors which were having Eigen value more than unity were taken up for consideration. The five perceptual factors represent around 83.106 percent of the total variance, which is very significant. The remaining variance could be explained by other factors.

It is observed from total variance Table that the total variance, explained by factor 1,2,3,4 and 5, was 23.784 percent, 19.077 percent, 14.742 percent, 14.661 percent and 10.842 percent respectively, whereas the cumulative variance, explained by these entire factors, was 83.106 percent. The rest of the variance was due to factors which were beyond the scope of the study.

The purpose of the rotated component matrix of factor analysis is to identify the factors that meaningfully explain the sets of closely related variables. Each number represents the partial correlation between the item and the rotated factor. These correlations can help us formulate an interpretation of the factors or components. Factor analysis rotation methods start with the original axes and a mathematical rotation is applied. This simplifies the relationships between factors and the variables. The rotation phase of the factor analysis attempts to transfer initial matrix into one that is easier to interpret. The varimax rotation method is used to extract meaningful factors.

Further, all the variables which have high loadings are combined with the concerned factor, based on their scores in the Table below.

The above Table presents the factor loading for each variable. It also shows the conversion period to electronic form from physical form, Customer care service response, Awareness programme about the trends in depository service, pledging of dematerialised securities, Conversion period of physical shares to electronic form and Sale securities on behalf of the minor have loadings of 0.948, 0.945, 0.929, 0.924, 0.923 and 0.921 respectively on factor1. This suggests that factor 1 is a combination of these variables. At this level, factor 1 can be named as **Electronic credit of securities.**

**Table 4: Improvements after Adoption of the New System**

| **Rotated Component Matrix** | | | | | | |
|---|---|---|---|---|---|---|
| Factor name | | Component | | | | |
| | | 1 | 2 | 3 | 4 | 5 |
| 1.Electronic credit of securities | Conversion period to electronic form from physical form | 0.948 | | | | |
| | Customer care service response | 0.945 | | | | |
| | Awareness programme about trends in depository service | 0.929 | | | | |
| | Pledging of dematerialized securities | 0.924 | | | | |
| | Conversion period of physical shares to electronic form | 0.923 | | | | |
| | Sale securities on behalf of the minor | 0.921 | | | | |
| 2.Timely process of depositing securities | Timely processing of depositing securities | | .943 | | | |
| | Remittance of sale proceeds | | .930 | | | |
| | Availability of trained staff | | .913 | | | |
| | T+2 and Rolling settlement | | .895 | | | |
| | Nomination of facility | | .890 | | | |
| 3.Reduction in cost and time | Timely services by the depository participant | | | .937 | | |
| | Attitude of staff | | | .917 | | |
| | Cost of transaction | | | .876 | | |
| | Safety of security | | | .863 | | |
| 4.Faster disbursement of benefits | Fast disbursement of non-cash corporate benefits | | | | .924 | |
| | Inter depository instructions | | | | .923 | |
| | Account opening charge | | | | .868 | |
| | Tariff structure | | | | .866 | |
| 5..Quick services | Opening of demat account | | | | | .907 |
| | SMS alert | | | | | .901 |
| | Maintained of records of holding in electronic form | | | | | .857 |

In case of the factor 2 columns, the variables are: Timely process of depositing securities, Remittance of sale proceeds, Availability of trained staff, T+2 and Rolling settlement and Nomination of facility have high loadings of 0.943, 0.930, 0.913, 0.895 and0 .890 respectively. This indicates that factor 2 is the combination of these five variables. At this level, factor 2 can be named as **timely process of depositing securities**. In case of the factor 3 columns, the variables are: Timely services by depository, Attitude of staff, Cost of transaction and Safety of security have high loadings of 0.937, 0.917, 0.876 and 0.863 respectively. This indicates that factor 3 is the combination of these four variables. At this level, factor 3 can be named as

**Reduction in cost and time**.

In case of the factor 4 column, the variables are: Fast disbursement of non-cash corporate benefits, Inter-depository instructions, Account opening charge and Tariff structure has high loadings of 0.924, 0.923, 0.868 and 0.866 respectively. This indicates that factor 4 is the combination of these four variables. At this level, factor 4 can be named as **faster disbursement of benefits.** In case of factor 5 column, the variables are: Opening of DEMAT account, SMS alert and Maintenance of records of holding in electronic form has high loadings of 0.907, 0.901, and 0.857 respectively. This indicates that factor 5 is the combination of these three variables. At this level, factor 5 can be named as **Quick services.** The 5 factors identified were found to have more influence on the investors among the 22 variables.

**Table 5: Factor Analysis of the Various Variables**

| Factor Name | % of variance explained | Cumulative % of variance explained |
|---|---|---|
| 1.Electronic credit of securities | 23.784 | 23.784 |
| 2.Timely process of depositing securities | 19.077 | 42.861 |
| 3.Reduction in cost and time | 14.742 | 57.603 |
| 4.Faster disbursement of benefits | 14.661 | 72.265 |
| 5.Quick services | 10.842 | 83.106 |

## Conclusion

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Factor analysis has identified the primary components that influence investors' decisions when opening Demat accounts and selecting Depository Participants. These key factors include the electronic credit of securities, a timely deposit process, cost and time efficiency, expedited disbursement of benefits, and prompt services. Investors have clearly indicated that these factors significantly impact their choice of depository participants for opening Demat accounts.

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