



MARKETING PROSPECTS FOR DEMAT SERVICE PROVIDERS :  
A MARKET-RESEARCH BASED STUDY

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*Abstract*

*During the course of this research I discovered that there are only 2.51 Cr Demat accounts in India which is just 1.99% of our entire population of 126 Cr. This shows that there lies a vast untapped potential in this particular market and brokers should increase their efforts get more and more customers on-board.*

*I have come across people who actively trade in financial securities but I've also noticed that several people are completely oblivious to this financial instrument. At a time when so much emphasis is being laid on financial inclusion in the country I set out to find the level of awareness amongst people about Demat Accounts and then conducted a research based on responses received from current account holders. There are some efforts which are taken by one of national depositories- CDSL to provide investment education to people under their Investor Awareness Program (IAP). Individual depository participants also conduct informative seminars at their facility from time to time. However, a stronger push is required in this direction so as to create greater awareness amongst the citizens so that they're able to support themselves better financially in times of economic turmoil and spiking inflation.*

*This dissertation thereby includes a basic understanding of Demat Provisions in the country, its advantages and an analysis based on the answers received from the Demat Account Holders approached as a part of the Primary Research.*

*Success of existing promotional efforts is gauged based on the Primary Research and suggestions have been given to indicate which parameters should be developed as a Unique Selling Proposition by the brokers to attract more customers.*

*I also interviewed the Head-Investor Education, CDSL and the Marketing and Sales Heads of Angel Broking, ICICI Bank and RKSVM respectively so as to understand how the promotional methods have changed over time, current customer acquisition techniques, monthly lead conversions and current competition scenario.*

## I. INTRODUCTION

A Demat account holds shares and securities in an electronic form, eradicating the hassle of physical paper certificates. Since electronic records are maintained, the account can be accessed from anywhere. The accessibility of the account is spread all over the internet and all trades are



settled in electronic records rather than certificates. Demat account is a requirement stipulated by SEBI for individual Indian Citizens.

From the traders' perspective, the following parameters can be considered vital while opening a Demat account: Brokerage, User friendliness, Software for various platforms, Ease of Fund Transfer and Allowance of other investment Options such as IPO /Mutual funds allowed

Objective of the study aimed to find out -

- i. Which of the above listed parameters should be developed as a USP by Demat service providers
- ii. Marketing tools used by Demat service providers to attract and retain customers in this volatile market
- iii. In which channel does the scope for advertisement lie to tap new customers
- iv. Determine which medium is mostly used by people for opening Demat accounts and the reasons for the same

## II. RESEARCH METHODOLOGY

**Sample Size** - 100 (only people with Demat accounts were approached)

### **Snowball Sampling**

The need for snowball sampling arose because of the difficulty encountered in identifying the appropriate respondents right in the beginning of the study as not everyone is a Demat service user. **Snowball sampling** is a non-probability **sampling** technique where existing study subjects recruit future subjects from among their acquaintances. This was the apt sampling technique for this study as I sought answers only from those who have Demat accounts. The study is being based on the answers provided by 100 Demat service users. The respondents have been divided into the following age groups - **20-30, 30-40, 40-50, 50-60**.

I personally approached a few people from each age group who I knew held a Demat Account and then requested them to forward the questionnaire to more Demat Account Holders in the same age group. Over the course of two months I was able to secure 100 responses. I ensured that I had **exactly 25 respondents in each group (20-30, 30-40, 40-50, 50-60)** so that 100 respondents have **equal representation** across each age group enabling me to make claims based on age such as- popularity of a particular Demat service provider among specific age groups, whether age plays a role in the choice of Broker etc.

The collected data has been drawn up and presented in the form of:

1. Bar Charts for-
  - a) Full-Service Brokers opted for by customers who have their Demat accounts with this broker type
  - b) Discount Brokers opted for by customers who have their Demat accounts with this broker type



2. Pie Charts for-
  - a) Distribution of Demat account holders among different broker categories
  - b) Banks opted for by customers who have their Demat accounts with banks
  - c) Determination of the success rate of different promotion schemes/ advertisements
  - d) Customers' opinion on whether they feel that brokers should indulge in aggressive marketing to garner more account holders.
3. Clustered Column charts for-
  - a) Age-wise segmentation of Broker Preferences
  - b) Age-wise segmentation of the cumulative significance given to different factors before opening a Demat account

#### Tools for Analysis-

##### 1. Chi Square

- Relation between **age** and **form of advertisement** which influenced the service user
- Relation between **income** and **type of Demat service provider** chosen
- Relation between **age** and **type of Demat service provider** chosen

(To verify whether there's any relationship between a service user's **age** and the **advertisement** that influences him/her, whether there's any relationship between a service user's **income** and the **type of Demat service provider** chosen and whether there exists a relationship between people's **age** and **type of Demat service provider** chosen.)

##### 2. Correlation

- Between **income** and importance of **brokerage** before selecting a Demat service
  - Between **age** and importance of **user friendliness** before selecting a Demat service
- (To verify the **strength** of the above mentioned relationships)

### III. SECONDARY RESEARCH

#### Background

Prior to the Depositories Act, 1996, shares were held in the physical form and were vulnerable to duplication, mutilation, theft and damage. Transferring was also a lengthy, unwieldy process, engrossing large charges. A revolution in the capital market came into being with the Depositories Act of 1996.

Until the late 1980s, the Indian markets held shares in the form of paper which caused several problems such as unauthentic and filched shares, signature incongruity, replication, fake signatures, disfigurement of shares as well as transfer problems. The investor confidence was eroded. Both retail and institutional investors were hesitant to enter the capital market because of the old trading and settlement system. This is because the voluminous paperwork made the system a menace. Deficiency of innovation started becoming a deterrent to growth and a change became necessary. During the rise of liberalization ingenuities of the Government a transformation supervened. The restructurings in the fiscal sector were envisioned even in foreign investments, capital market, mutual funds, banking sector, along with securities market regulation. The crucial foundation behind depositors' quarrels and adjudication cases was the



aspect of physical certificates. The physical certification did not support the development of the sector, thus leading to a pressing necessity, for the elimination of the existing impairment of the system and bringing forth a new mechanism.

A highly sophisticated, computerized, automated model was brought into existence by the Government of India, thereby abolishing several blockages of the capital market. A simple solution to all problems of payment mechanism in stock exchange, screen - based depositories and trading.

Following are some of the benefits of Dematerialization:

- Securities can be held in an expedient and easy way
- Convenient & instant transfer
- Elimination of stamp duty on securities' transfer
- Better safety than paper-shares
- Abridged form-filling for securities' transfer
- Decreased cost of transactions
- Suppressing of "odd lot" issue as even a single share can be traded
- Alteration in address is easily logged with a Depository participant (DP) for all companies together, eradicating the tedious process of corresponding with each separately
- Advantage of Automatic and real-time credit for shares that arise out of bonus/split, consolidation/ merger
- Investment of both equity and debt instruments can be held in a single account
- Flexibility for traders to work from any location, since it's an electronic system

#### **Advantages to different Stakeholders- Company**

Printing and distribution costs are completely eliminated due to dematerialization. Efficiency of the registrars, secretarial department of a company and transfer agents also gets enhanced. There are improved facilities for communication and timely service to shareholders as well as investors.

#### **Investor**

Sufferings of investors in terms of physical shares getting lost in transit, or stolen at various points of handling, endless wait for transfer settlements, fraudulent certificates and bad deliveries due to mismatch of signatures are mitigated. These risks and endless delays made reliance on liquidity in terms of investment in shares unreliable. Today's scenario gives the electronic money transfer speed to investments in shares.

#### **Brokers**

Frauds, bad deliveries and settlement delays had investors losing confidence in brokers. Elimination of all these things, increased the confidence of the investors in the broker, as a result of which trading volumes increased and circulation of money became manifold faster.

#### **Who can open a Demat account?**

- Individuals



- HUF- Karta
- Minor (By guardian)
- Corporate (Public Limited Company, Private Limited Company)
- Trusts (Registered)
- Banks
- Foreign Institutional Investors (Registered with SEBI)

A PAN Card is mandatory for opening a Demat account.

### **Categorisation of Brokers**

There are the categories of brokers based on the services provided-

1. Full-service brokers

They are big in size and operations with multiple offices and as the name suggests offer the complete investment and wealth management portfolio to the investors, whether its stocks, Mutual Fund, Fixed Deposits, Bonds, Life Insurance, General Insurance, Future & Options, commodities, currency derivatives, IP's etc. Their customer base is also large as they cater to the individual investor and corporates. The services are provided through multiple departments consisting of investment research teams, financial planning advisors, backed with investment tips, newsletters and research reports. The brokerage, service charges and fees are higher than discount brokers. Brokerage costs are a percentage of trading value. Full-service brokers include the likes of India Bulls, BNP, Angel Broking, Motilal Oswal, Share Khan etc.

2. Discount Brokers

They provide no frills service at very competitive prices and offer few investment options. In fact, there is no advisory role and the research is to be done by the investor. The discount brokers vary in the services they provide, depending on their specialisation or client based volumes. Brokerages are more or less fixed, immaterial of the volume of trade and some offer monthly or yearly fee for unlimited volume of trading. These are attractive rates for customers who can plan their investments.

### **Comparison of Full-service Brokers with Discount Brokers**

- While Full-service brokers are much larger in size and have many offices across the country the Discount brokers have one or a few offices which are mainly located in the big cities.
- The Discount brokers' brokerage charges are very low compared to that of Full-service brokers.
- Full-service brokers charge AMC, provide 24-hour phone support to their customers as well as training, research reports, regular newsletters and tips while the Discount Brokers provide none of these services.
- An investor who is a beginner would learn a lot with a Full-service broker and so will a corporate that seeks good advisory and research reports.



### 3. Banks

Due to their core strength banks offer an attractive single account with a 3-in-1 facility. The customer operates one account practically and carries out all transactions related to savings, trading and demat at one place with the ease and comfort of having to follow up, cross check, only one account for all the transactions. The investor achieves better control and management over savings, investments and trading moving the money in three different areas using one account only. The leading players in this area are ICICI Bank, HDFC Bank, Standard Chartered, IDBI Bank Ltd, HSBC InvestDirect, Kotak Securities, SBI and Axis Bank. This 3-in-1 facility is good for a small to mediocre investor. One should choose the service provider on the basis of brokerage charges, service quality and experience of such operations. Cost of trading with such accounts is high and is offset with the benefits of managing the money through an integrated medium.

### **SEBI Regulations, 1992 for Brokers**

#### Duty to the Investor

SEBI Regulations of 1992 provide Code of Conduct for Stock Brokers under Regulation 7, Schedule II to protect the interest of the investor and ensure smooth functioning of Depository Participants. These regulations are-

1. **Execution of Orders:** A stock-broker should faithfully execute the orders for buying and selling of securities at the best available market price and not refuse to deal with a Small Investor merely on the ground of the volume of business involved.
2. **Breach of Trust:** A stock-broker shall not disclose or discuss with any other person or make improper use of the confidential details of the clients.
3. **Business and Commission:**
  - A stock-broker shall not encourage sales or purchases of securities with the sole object of generating brokerage or commission.
  - A stock-broker shall not furnish false or misleading quotations or give any other false or misleading advice or information to the clients with a view of inducing him to do business in particular securities and enabling himself to earn brokerage or commission thereby.
4. **Business of Defaulting Clients:** A stock-broker shall not deal or transact business knowingly, directly or indirectly for a client who has failed to carry out his commitments in relation to securities with another stock-broker.
5. **Investment Advice:** A stock-broker shall not make a recommendation to any client who might be expected to rely thereon to acquire, dispose of, retain any securities unless he has reasonable grounds for believing that the recommendation is suitable for such a client upon the basis of the facts, if disclosed by such a client as to his own security holdings, financial situation and objectives of such investment. The stock-broker should seek such information from clients, wherever he feels it is appropriate to do so.
6. **Competence of Stock Broker:** A stock-broker should have adequately trained staff and arrangements to render fair, prompt and competent services to his clients.



### Stock-Brokers Vis-A-Vis Other Stock-Brokers

- 1. Conduct of Dealings:** A stock-broker shall co-operate with the other contracting party in comparing unmatched transactions. A stock-broker shall not knowingly and wilfully deliver documents which constitute bad delivery and shall co-operate with other contracting party for prompt replacement of documents which are declared as bad delivery.
- 2. Protection of Clients Interests:** A stock-broker shall extend fullest co-operation to other stock-brokers in protecting the interests of his clients regarding their rights to dividends, bonus shares, right shares.
- 3. Transactions with Stock-Brokers:** A stock-broker shall carry out his transactions with other stock-brokers and shall comply with his obligations in completing the settlement of transactions with them.
- 4. Advertisement and Publicity:** A stock-broker shall not advertise his business publicly unless permitted by the stock exchange.
- 5. Inducement of Clients:** A stock-broker shall not resort to unfair means of inducing clients from other stock-brokers.
- 6. False or Misleading Returns:** A stock-broker shall not neglect or fail or refuse to submit the required returns and not make any false or misleading statement on any returns required to be submitted to the Board and the stock exchange.

### **Case of Stock Broker Penalization**

In 2014, the Securities and Exchange Board of India barred an Indore, Madhya Pradesh-based stock broker, Gravita Research Co. and its sole proprietor Ravi Chouksey, from the stock market for 4 years.

SEBI found that Chouksey and his firm were giving investment advice to their clients on various aspects of stocks and commodity markets investing and charging fees without obtaining a licence as required by the Sebi Investment Advisers (IA) Regulations, 2013.

Although Gravita Research claimed that it did not actively pursue potential clients and only asked them to register in case clients were satisfied, Sebi's order said that Gravita Research actively persuaded them to sign up as regular clients.

### **Recent Trends**

#### **Basic Services Demat Account**

Security and Exchange Board of India encouraged wider financial inclusion in 2012 with the novel concept of "Basic Services Demat Account" (BSDA) for retail individual investors. The basic intent was to provide a reduced cost of maintaining securities in Demat Account. Depository Participants were asked to make this service available.

- **Permissible customers:** In order to ensure that small investors were attracted and received good service, the BSDA offered limited range of service at reasonable costs to retail investors. The requirement was that the value of securities held by the investor should not be more than Rs2 lakh at any given point of time.



- Charges: Pre-determined slabs would help in ascertaining the AMC. There would be no AMC for value holdings upto Rs 50,000 and an AMC of Rs. 100 for value holdings falling in the bracket between 50,001 to Rs 200,000.
- Value decider: Sebi has entrusted the DPs to determine the value of holding on the basis of the daily closing price or Net Asset Value of the securities or units of mutual funds.
- Choice for existing Demat account holder: The BSDA facility was also extended to existing eligible individuals holding Demat accounts with a DP to convert their accounts into BSDA from the next billing cycle applicable, based on the value of securities on the last day of the previous billing cycle.

### **Reason behind the creation of BSDA Facility**

Representation received by SEBI, primarily from small individual investors, with specific reference to cost of maintaining a Demat account were the basis of SEBI taking the initiative to hold extensive consultations and discussions with all stakeholders to address the issue.

With the objective of extending the reach of the IPO's to benefit small investors and to achieve wider financial inclusion SEBI decided to ensure that DP's (Depository Participants) make available the BSDA with reduced cost and limited services.

### **Impending conversion of physical shares to Demat form**

According to an estimate, retail investors in the year 2014 held physical shares of Rs 2.3 lakh crores. These were not converted to Demat for two reasons, emotional quotient and procedural difficulties.

*Emotional quotient* – Retail investors had different emotions attached to the physical shares. Some saw their attachment stemming from having received those shares down the generations. There was a case in which one investor had accumulated 2 lakh shares of Hindustan Unilever over the years. The first 200 shares were bought from his first salary. He didn't want Demat them because of the sentiments attached to the physical shares. His financial planner feared that the physical shares might get destroyed but he refused to change his decision.

*Procedural Roadblocks* – Frequent rejections by companies and registrars, majorly, on account of signature mismatch kept the documents travelling back and forth with some also getting lost in the process. Dematerializing physical shares could take anywhere between 3 months to 3 years! Even though the concept of Dematerialization was introduced in 1996, it has taken SEBI almost 20 years to enforce it. The SEBI's decision to make it mandatory for everyone to own shares in the non-physical format by the end of 2014 received a lot of flak because of the problems faced by the shareholders due to procedural roadblocks.

### **Doubling of Demat account openings in Financial Year 2014-15**

Sudden spurt in opening of Demat accounts was seen in the FY 2014-15 compared with the previous year. As far as the numbers go 1.5 million more demat accounts were opened. 23.3 million Demat accounts were opened, according to the two depositories, i.e. about 6.8% growth over the preceding year 2013-14 (21.8 million).





Specialists are of the opinion that the rise in the equities has a direct positive impact on securities market, as a lot of investors indulged in opening accounts. The Executive Director - Equity Broking, Angel Broking, Mr. Vinay Agrawal also belongs to the same school of thought that market performance has an impact on opening of Demat accounts. Since the market is flourishing, it is expected to have constructive impact on the latter. Thus, the next 3 - 4 years have the probability of an upsurge of opening to about 13 - 14%. In order to bring in retail investors back to the market the initial public offering (IPO) market needs to act as a driver. The giants of the market, like Reliance Power in 2007 and Coal India in 2010 had lump-sum deposits in the IPO market. Thus tapping of giants would give an easy way to grasp new retail participants.

Figure 3.1: Demat Account Openings



Source: NSDL and CDSL as on Feb 28, 2015

IPO markets are believed to be the primary drivers for Demat account openings. According to Chief Executive and Managing Director, NSDL, Mr. Nageswara Rao. The rate at which the Demat account were opened had decreased tremendously since the slowdown of the IPO market. Other experts are also of the impression that during the financial year 2014-15, if the IPO market would have been on an upswing, the reaction would have been absorbed with greater account openings. There exists a direct correlation between the IPO market and the account openings. Therefore, even the benchmark indices, National Stock Exchange Nifty and BSE Sensex estimate a rise of about 18-20 % in the Financial year 2015-16.

### Perceived Transformation of Demat Accounts

It has been seen in the last few years that the number of Demat accounts have increased but the functionality has dropped. Data from CDSL has shown upticks in the quantity of Demat accounts from financial year 2010-11 to 2015-16.

During 2014-2015 not even a single transaction was registered by approximately 75% of Demat accounts. The growth was associated with the performance of benchmark indices. It was also considered that sustained optimistic sopiness is required for such growth to last.

The Business Head-, Emkay Global, Rahul Rege also believes that *"The consistent decline in active accounts reflects the lack of faith in the asset class. Unless industry takes efforts to increase trust and confidence among investors, the number of active accounts will not increase."* Fascinatingly, financial



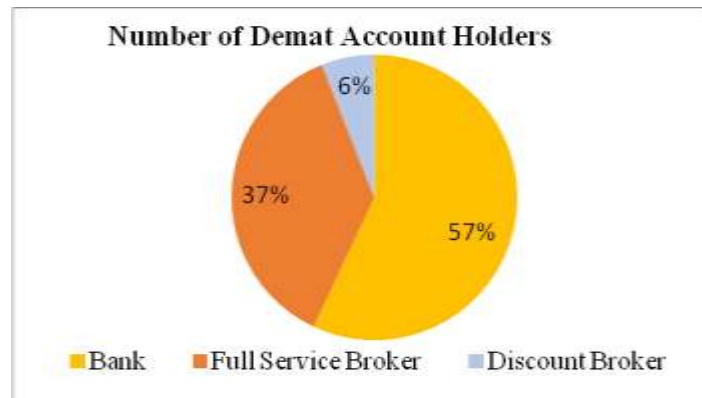
year 2010-11 saw highest number of operational accounts at 41.71%. Consequent three financial years, the operational accounts in comparison to total number of Demat accounts decreased from 30.08% to 22.88%. A sudden increase was seen in 2014-15 to 24.93% nevertheless it crashed again to 22.99% in 2015-16. However, the operational accounts never again saw the highs of financial year 2010-11.

The crux of the matter is that, the downfall of operational accounts occurred due to absence of bearable returns in equities. It is evident that sustainable returns from the equity market would lead to huge activation and eventually the operational accounts would reach a 40 % level yet again.

#### IV. PRIMARY RESEARCH

##### 1. Distribution of respondents among different broker categories

Figure 4.1



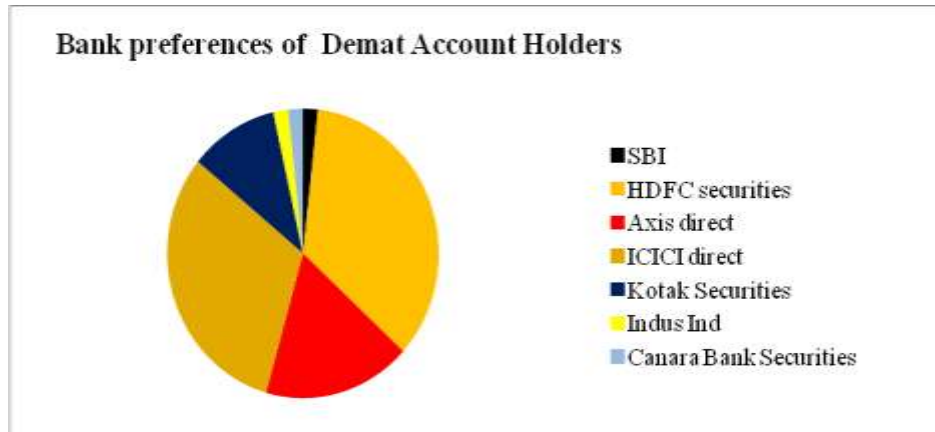
Much like how it is in reality, the sample population showed the highest inclination towards banks, followed by Full-service brokers and then discount brokers. The 3-in-1 account facility offered by banks tends to prevail over the other brokers' services. Customers already holding a Savings Account with a bank feel comfortable going for a Demat account with the same financial institution as it offers an integrated solution for trading in securities.

Full-service Brokers are the second most popular depositary participants riding on their advisory facilities and the fact that their core business is this financial service. New traders on the block are often attracted by this broker category. Discount Brokers are relatively new in India but are slowly emerging and capturing a good share of the market. They mostly cater to independent high volume traders who do not require much advice.



2. Banks opted for by customers who have their Demat accounts with banks

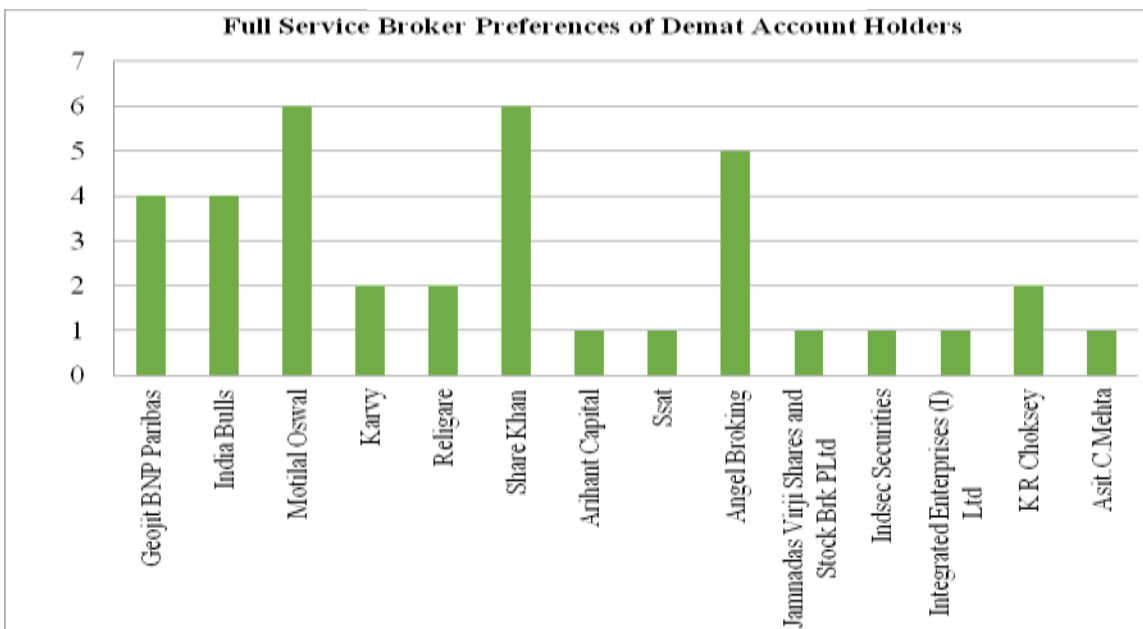
Figure 4.2



A major chunk (i.e. 35%) of the respondents who have Demat accounts with banks have opened their Demat accounts with HDFC Bank whereas 32% have Demat accounts with ICICI Bank. This again, is a reflection of the macroeconomic Demat scenario as these two banks are actually the leaders in terms of the maximum number of Demat accounts opened and have a sheer majority of Demat accounts in the country under their name. 17% of the bank-preferring customers have opted for Axis Direct whereas all the other remaining banks have a fairly equal share of customers.

3. Full-Service Brokers opted for by customers who have their Demat accounts with this broker type

Figure 4.3

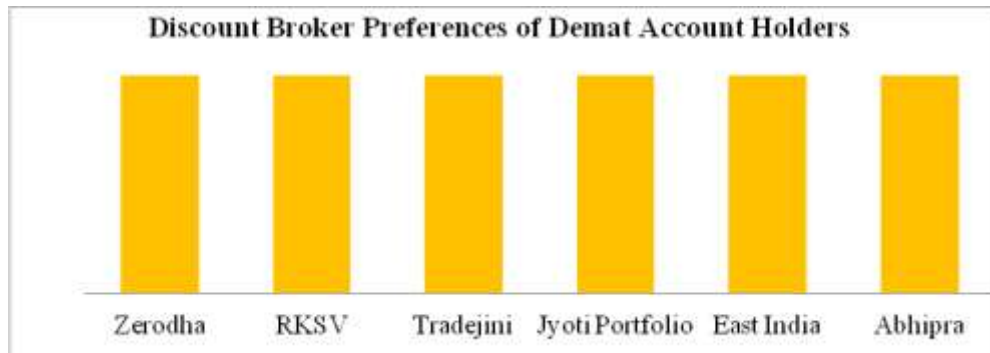




As is clear from the bar graph displayed in figure 4.3, there are several Full-Service Brokers out there competing with each other. There's no clear market leader indicated by the sample population in this category but Motilal Oswal and Share Khan are jointly the most opted for full-service brokers followed by Angel Broking. Since the other Full-Service Brokers are fairly new in the market they still have some time to catch up before they start posing a threat to the old players. The key lies in luring customers with superior service and a smoother interface. Better promotional strategies would also be helpful.

#### 4. Discount Brokers opted for by customers who have their Demat accounts with this broker type

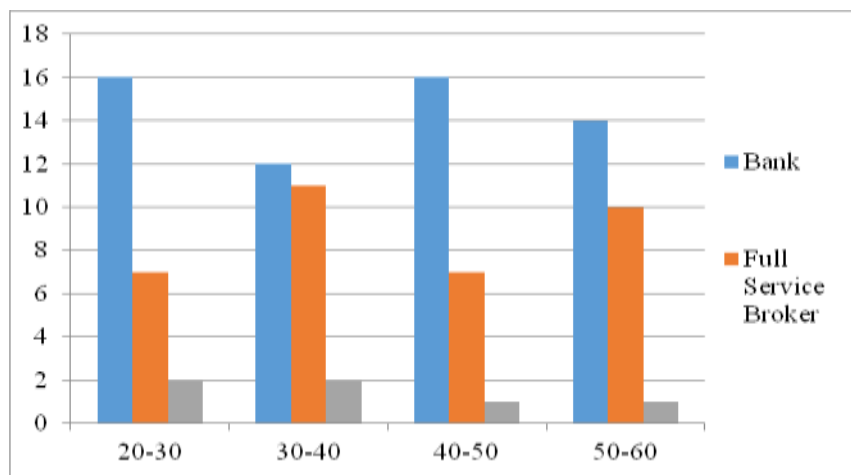
Figure 4.4



Only 7 out of the 100 respondents have Demat accounts with discount brokers. The reason behind their inability to attract a larger customer base lies in the fact that they do not provide services like stock research and investment advice. However, a low customer base may not be a big concern for these brokers as they focus on investors who trade in large volumes. The 7 respondents who actually have Demat accounts with discount brokers have their loyalties equally split amongst 7 brokers as can be seen in the bar graph above.

#### 5. Age-wise segmentation of Broker Preferences

Figure 4.5

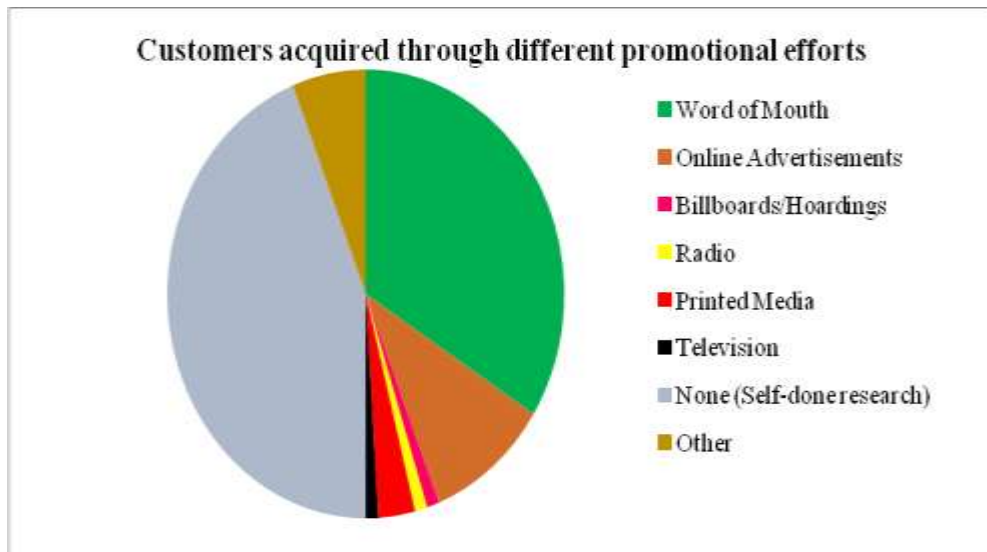




A fairly visible pattern amongst all age groups is the low popularity of discount brokers. Banks remain the clear favourite form of brokers amongst all the age groups. Banks hold a substantial lead in terms of preference over full-service brokers in all age groups except one i.e. 30-40. In the 30-40 age group 11 customers have their Demat account with Full-service brokers and 12 with banks. This is also the age group with the highest penetration from Full-service brokers. This goes to show that customers in this age group do not mind are not overly inclined towards a 3-in-1 provision and is avid learners. They wish to procure regular advice in the form of research reports, trading tips and professional assistance. These customers may be well-versed with the basics but they still seek money making tips.

#### 7. Determining the success rate of different promotion schemes/advertisements

Figure 4.7

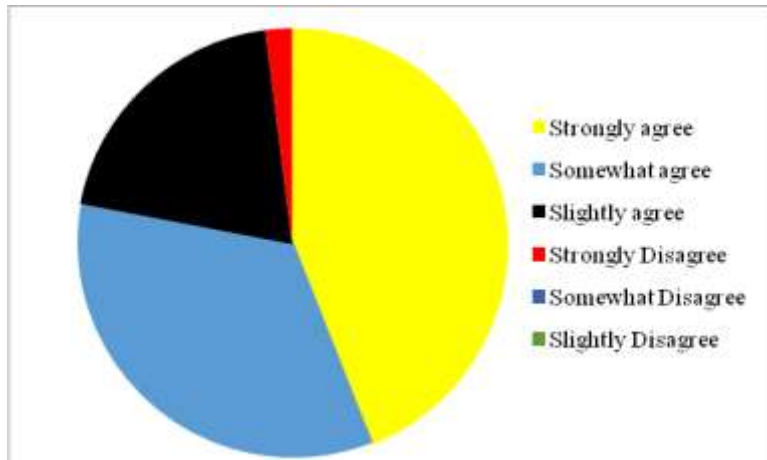


Out of the 100 respondents, 44 were NOT influenced by any advertisement form and were roped into opening a Demat account due to their own interest and research conducted by them. 34 were lured into opening a Demat account by virtue of the word of mouth medium. 78% of the respondents weren't directly converted into customers because of an advertisement. This goes to show the poor lead conversion of promotional schemes adopted by the brokers. The reasons for the failure of advertisements can be - poor quality due to lack of information provided, presence on wrong mediums, and lack of buzz creation due to their shortage in numbers.



8. Customers' opinion on whether they feel that brokers should indulge in aggressive marketing to garner more account holders.

Figure 4.8



98% of the respondents agreed that brokers should indulge in aggressive marketing to garner more account holders. To be precise 44% strongly agreed, 34% somewhat agreed and 20% slightly agreed. Since a majority of the sample population were in the grey as far as knowledge about Demat accounts was concerned, they want the prospective customers to be tapped by the brokers through well-directed marketing efforts and greater dissemination in general about investment opportunities and Demat facilities. The existing customers don't want the future ones to go through the same ordeal as them and are pro for optimised investor education programmes.

9. Cumulative rating based on scores by respondents on a scale of 1 to 5 to the below mentioned factors in terms of significance given to each before opening a Demat account.

Table 4.1

Brokerage	User friendliness	Software for various platforms	Ease of Fund Transfer	Allowance of other investment options like debts, bonds etc.
352	376	343	385	341

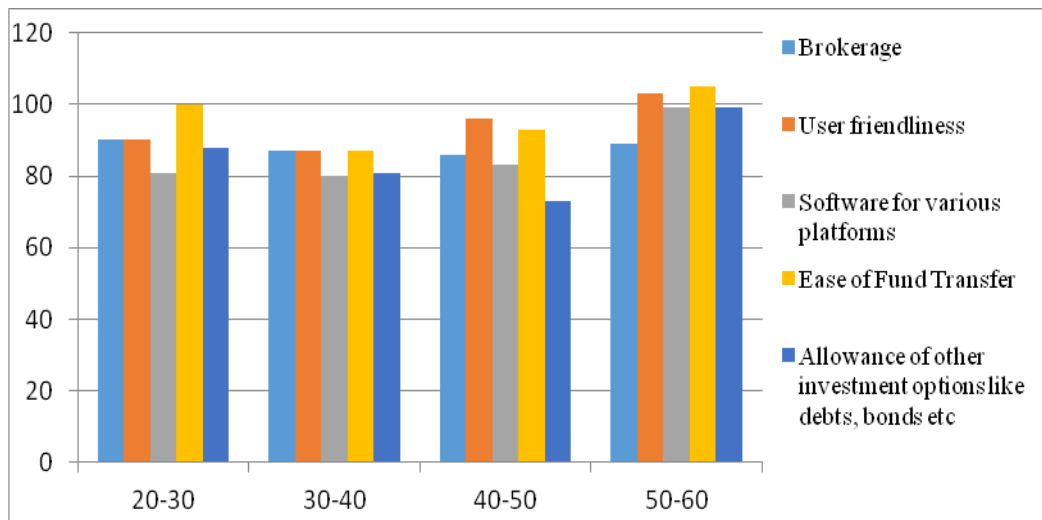
Cumulatively, Ease of Fund Transfer is considered the most significant parameter by the respondents before they open a Demat account. This suggests that brokers should focus on making their online trading portal extremely smooth and trader savvy so as to attract more customers. Emphasis should also be laid on enhancing the user-friendliness of the interface as



that is the second-most significant parameter as per the responses received. Therefore, efforts should be directed towards making the entire process as simple and uncomplicated as possible.

#### 10. Age-wise segmentation of cumulative significance given to different factors before opening a Demat account

Figure 4.9



Ease of Fund transfer is considered the most significant parameter before the taking the decision of opening a Demat account across the age groups 20-30, 30-40 and 50-60. As far as the 40-50 age group is concerned, its' constituent customers feel User Friendliness is the most important factor while choosing between different brokers. It's safe to say that brokers should focus on developing an online portal that gives priority to Ease of Fund Transfer and User Friendliness. Focussing on these two parameters will help in greater customer retention across the different age categories.

## V. DATA ANALYSIS

### Chi Square analysis

1. **Age and form of advertisement** which influenced the service user

$H_0$  = There is no relation between the **age** and **form of advertisement** which influenced the service user

$H_A$  = There is some relation between the **age** and **form of advertisement** which influenced the service user

$$\chi^2 = 19.860963$$

Degrees of freedom = 21



Therefore critical value at 5% level of significance=**32.671**

Since computed value < critical value, we accept null hypothesis which indicates that there's no relation between the age of the customer and the form of advertisement that influences him to open a Demat account.

**2. Relation between income and type of Demat service provider chosen**

**H<sub>0</sub>** = There is no relation between **income** and **type of Demat service provider** chosen

**H<sub>A</sub>** = There is some relation between **income** and **type of Demat service provider** chosen

$$\chi^2 = 11.87641999$$

Degrees of freedom = 12

Therefore critical value at 5% level of significance = 21.026

Since computed value > critical value, we accept the null hypothesis which indicates that there isn't any relation between **income** and **type of Demat service provider** chosen.

**3. Relation between age and type of Demat service provider chosen**

**H<sub>0</sub>** = There is no relation between **age** and **type of Demat service provider** chosen

**H<sub>A</sub>** = There is some relation between **age** and **type of Demat service provider** chosen

$$\chi^2 = 2.226648$$

Degrees of freedom = 6

Therefore critical value at 5% level of significance = 12.592

Since computed value > critical value, we accept the null hypothesis which indicates that there isn't any relation between **income** and **type of Demat service provider** chosen.

### **Correlation**

**1. Between income and importance of brokerage before selecting a Demat service**

$r = 1.471557455 > 0.8$  which indicates a strong relationship

The brokerage paid by an investor makes a big difference in the returns that they receive in the long run. It is one of the most vital aspects that need to be considered before opening a Demat account with any customer. This correlation analysis reveals that there is a strong relationship between the income of the consumer and the weightage given by him/her to brokerage fees.

**2. Between age and importance of user friendliness before selecting a Demat service**

$r = 0.159014 < 0.4$  which indicates it is a weak relationship





Contrary to popular belief, the correlation analysis determined that there's a weak relationship between age and the importance of user friendliness. It is expected that less tech-savvy customers (non-millennials) will assign more weightage to user friendliness but the result of this analysis shows that age has little to do with the significance of user friendliness.

### **Takeaways from Industry Interviews**

#### **1. Takeaways from the meeting with Mr. Deepak Singh, National Sales Head of Angel Broking on 22/6/2016**

Demat penetration in India is less than 3% whereas in China it is about 10%.

As far as sourcing of customers is concerned, Angel Broking heavily depended on offline methods until 3 years ago. Offline methods like roadshows that drew 80-90% of their customers. With the advent of technology the company shifted to online methods. Out of a lakh leads generated 3000 accounts are opened which indicated that the conversion rate is 3%. Typically, Angel Broking opens 5,500 accounts a month around 3600 of which is through their online marketing efforts and 1900 through offline. Earlier the share market's active traders lay in the 35-45 age group but now the focus has shifted to the younger bracket of 25-35.

The main aim of Angel Broking's marketing efforts is to have a sound market presence. It is crucial to create web traffic on their website to generate leads. Google ad work search plays a key role in online marketing. Bidding takes place for the ads displayed on different keywords searched and this is a constant battle fought between different Demat service providers. SMS campaigns and social media marketing methods are resorted to as well. There's an email campaign too but the conversion isn't up to the mark in that. Cost per lead and cost per customer are the two types of costs involved when the email campaign responsibility is given to third-party vendors. The vendors agree to send 1.5 Cr mails at the cost of Rs.10 per mail.

After the success of Jan Dhan Yojana government wants to take a step further to continue rolling the financial inclusion juggernaut. A marquee step in this regard is the Basic Service Demat Account which implicates an Annual Maintenance Cost of not more than 100Rs on a BSDA. As of now, the government hasn't strongly enforced this scheme on the stock brokers but this may change in a few years. BSDA won't be as lucrative for the Demat-service providers but India will definitely garner more Demat account holders and move towards 10% penetration from its current 3% situation. Better awareness, BSDA and greater spotlight on IPOs/FPOs are the ways ahead.

#### **2. Takeaways from the meeting with Mr. Viral Mehta, Area Manager of ICICI Securities on 30/6/2016**

As far as the marketing strategies of ICICI Securities are concerned, they've learned over the period that corporate programs do not always have the best response because corporates are not always willing to waste any of their man-hours. Hence, ICICI has resorted to scheme-based awareness programs which are supported by depositories. Ways of engagement include



disseminating information about Rajiv Gandhi Equity Savings Scheme and offering discounts. Investor Awareness Programs are also held as they're an SBI mandate. Apart from these, ICICI has also tried roping in customers young by organising a seminar called Stock Mind across Indian colleges. Google adwords and YouTube Promos are also resorted to to stay in the eyes of possible prospects. At present there are 2-3% Demat accounts and almost 70% of these are between ICICI and HDFC. ICICI Securities target first time investors.

Pragati Ke Liye which is an ICICI CSR initiative also aids their marketing efforts. By default, a person opening a Demat account with ICICI will open a Basic Service Demat Account. However, the government is yet to clarify its guidelines related to BSDA for stricter implementation among all Demat service providers.

### **3. Takeaways from the meeting with Mr. Sagar Shinde, Maharashtra Sales Head of RKSV on 7/7/2016**

RKSV has a tie up with chittorgarh.com and traderji.com where its ads are flashed 15 times on a daily basis. To create a greater awareness amongst the masses about their services RKSV has recently hosted Investor Awareness Programs (regulated by CDSL and funded by Investor Protection Fund) in Mumbai, Rajkot and Bangalore. RKSV was launched in 2012 but has managed to get 45,000+ customers on board and is roping in around 1000 per month. The lead generation is about 3700-3800 per month based on ad clicks. The target audience for RKSV is active volume traders. In addition to web advertising RKSV also wants to widen its customer base through word of mouth. A customer gets 10% brokerage on each new customer referred. RKSV has been able to procure 75% of its customers through these references. As far discount brokers are concerned Zerodha, which was launched in 2010, is the leading firm but it is being closely followed by RKSV.

### **4. Takeaways from the meeting with Mr. Ajit Manjure, Head-Investor Education of Central Depositories Services Limited on 30/7/2016**

CDSL was established in 1999 whereas India's other national depository NSDL was established in 1996. As of now there are 2.51 Cr active Demat accounts in India out of which 1.12 Cr are opened by CDSL and the balance with NSDL. CDSL has 581 Depositories on-board in comparison to NSDL's 270, which is more than twice! CDSL has 10 offices across India. As far as purchasing of securities issued by IPO goes, CDSL Demat accounts require a 16-digit code whereas NSDL accounts require an 8-digit code.

The Demat world is witnessing innovation. Now, Life Insurance Policies can be held in Demat form and 5 agencies have been permitted by the IRDAI in this regard. Namely- CDSL (CIRL), NSDL (NDML), SCHIL, CAMS, KARVY. Mr. Manjure also highlighted that post the 1996 Depositories Act around 95% securities are held in Demat form. However, 5% securities still continue to exist in the physical form either owing to ignorance, laziness of investors or even sentimental value. A lot of members of the Parsi community have shares that were signed by JRD Tata himself and they have an emotional connect with them. Hence, they do not want to convert those shares into a Dematerialised form and continue to hold them in their physical form.



## VI. MAJOR FINDINGS

1. A majority of the sample population holds its Demat accounts with banks, followed by Full-service broker customers and lastly discount broker customers.
2. Amongst banks, HDFC Securities and ICIC Direct are the most popular Demat service providers for the customers.
3. Motilal Oswal and Share Khan have the joint highest number of customers amongst the respondents who have Demat accounts with Full-service brokers.
4. Discount Brokers are reeling behind Banks and Full-service Brokers on the national scale and this was reflected by the sample population. Amongst those opting for Discount Brokers there was no clear market leader.
5. Leadership of banks as the preferred Demat platform cuts across all age groups such as 20-30, 30-40, 40-50 and 50-60. The only age group wherein banks face a tough competition from full-service brokers is the 30-40 age group. This indicates that people in this age group give a lot of importance to the advisory services offered by full-service brokers and do not always go for the convenience of a 3-in-1 bank account.
6. Advertisements have had very little or no impact on the customers as 44% of the respondents opened an account after doing research themselves. Word of mouth has played a positive role in influencing them to open an account as well. Other promotional avenues such as radio, TV and print media advertisements have not been successful in customer conversion. Online advertisements, however, have been able to rope in 10% of the sample population and therefore should be given greater importance by the depository participants in the future.
7. 98% of the respondents agreed that brokers should indulge in aggressive marketing to garner more account holders as there is very little knowledge amongst people about trading and Demat accounts.
8. The sample population has selected ease of transfer as the most important parameter that's taken into consideration by them before selecting a broker. Hence, a well-pointed effort should be made towards ensuring the provision of this factor to customers in order to retain them.
9. The ageing customers in the 40-50 age group hold user friendliness in highest regard and this should be taken into perspective by the brokers while targeting customers in this age group.
10. Chi-square analysis revealed that there's no relation between the age of the customer and the form of advertisement that influences him to open a Demat account.
11. Contrary to popular belief there isn't any relation between **income** and **type of Demat service provider** chosen as indicated by another chi-square analysis.
12. Also, chi-square analysis signifies that there isn't any relation between **income** and **type of Demat service provider** chosen.
13. Correlation analysis revealed that there's a weak relationship between age and user friendliness.
14. As shown by correlation analysis there's a strong relationship between **income** and importance given to the **brokerage factor** before selecting a Demat service.



#### VII. RECOMMENDATIONS

- Out of the investment parameters provided to respondents, Ease of fund transfer is of greatest significance followed by User Friendliness. Hence, these two parameters should be developed as a USP by depository participants to garner enhanced customer attraction.
- Since a majority of the customers are opening Demat accounts backed by self-research, more initiatives should be taken up by DPs to promote Demat account facility and create greater awareness amongst prospective customers.
- Since India has a young population DPs should try and catch customers young. Students and young professionals should be targeted through educational seminars, webinars and adequate support in the form of IPOs will only boost this development.
- Since word of mouth is also an extremely influential medium in the Demat account openings, the DPs should focus on providing top-notch services to their account holders. A satisfied customer base will not only result in customer retention but also widening of this customer base through positive feedback.
- Discount Brokers are most suitable for well-trained volume traders which are very few in India. This is the reason why discount brokers have a very small customer base. Once the knowledge about investments avenues is there amongst the people, more and more customers will flow in for Discount Brokers.
- India still seems to lack a risk-taking mentality as people feel more comfortable opening Demat accounts with their banks. Banks do offer a 3-in-1 integration solution but people in general are hesitant to explore other depository participants as much.
- To complement the government's drive towards achieving financial inclusion college curriculums should design a course that disseminates investment knowledge to the students from all sects of society.

#### VIII. LIMITATIONS

- The sample population that provided responses for the purpose of this study is based in Tier 1 cities- Delhi and Mumbai. Hence, recommendations provided, backed by the analysis done, will be applicable only to these two cities and not the whole of India.
- This study does not provide a PAN India Demat penetration solution to depository participants.
- Since respondents have been equally divided amongst 4 age groups it doesn't reflect the actual age-wise segmentation of the Indian Population.
- A vast majority of the respondents are those that have Banks as their Demat Service Providers. Hence, this may prohibit the study from providing optimum and appropriate advice to Full-Service Brokers and Discount Brokers.
- The sample size of 100 might be too small to make any major claims for the entire customer base.



## IX. CONCLUSION

An astonishing revelation of this study has been the extremely poor penetration of the Dematerialization account facility in the country and the failure of advertisements in luring customers to open Demat accounts. However, online advertisements show a little promise and if depository participants and the depositories themselves focus towards imparting investment-related knowledge right from the grassroots level, the situation will improve.

Since radios, TV and print media advertisements are not proving beneficial enough, brokers should allocate funds towards better promotional channels. In the given case that could be organisation of seminars, workshops and webinars to educate people about this facility and instil faith in them about the capital market and the trading of securities.

The government aims to achieve financial inclusion but the participation in the capital market must support this drive.

Efforts should be made by full-service brokers and discount brokers to catch up with the 3-in-1 facilities offered by banks so as to capture a greater share of this nearly monopolised market.

Brokers should work towards providing a user-friendly portal and increasing the ease of fund transfer for the benefit of the investors and also to ensure customer loyalty and enhancement of customer base through positive word of mouth effect.

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