

INVESTORS' CONFIDENCE IN THE PRESENT DEPOSITORY SYSTEM AND RESPONSE TO CHANGED STRATEGY

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This article discusses the degree of investors' confidence and their reaction to the changed policy and strategies of the company with whom they are dealing. Thirty investors from various clusters of the country participated in the study. The researcher utilized the framework suggested by different officers working with depository system to access the factors, which make the investors to keep high confidence and continue with the same even when the changed policies are not in favour of them. Results show that investors have high degree of confidence in the depository system due to its safety and services and even when the changed policies are not in favour of them they do not want to bring change in their portfolio or rematerialize their shares. Further, they are not at all happy with changed policies of charges but they do not want to change portfolio because they are habituated to use such a system.

I. INTRODUCTION

National Securities Depository Limited (NSDL) is an organization promoted by IDBI, UTI and NSE to provide facilities for holding and handling securities in electronic form. It commenced its operations on November 8, 1996 with a view to provide a fair, efficient and transparent securities market to investors. Holding and handling of securities in electronic form eliminates problems that are normally associated

with physical certificates, like mutilation due to careless handling, loss in transit, problems of bad delivery etc. Further, it facilitates faster settlement cycles.

A depository can be compared to a bank. It holds securities of investors in electronic form. Besides holding securities, depository also provides services related to transactions in securities and interfaces with its investors through its agents called Depository Participants (DPs).

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NSDL has decided to revise its fee structure w.e.f. May 1,2002 for the DPs ushering in a major change in the principle of levying fees i.e. from ad valorem basis to flat fee structure by relating NSDL's fees to the number of transactions as far as settlement fee is concerned and to the number of account positions as far as custody fee is concerned. How this change in the fee structure will affect the investors depends upon the kind of an investor i.e. small or large. Here, the study is related to the small investors as with changed policy of the NSDL "SMALL LOTS TO PAY MORE" it plans to charge its DP at a flat rate of Rs. 10 for every delivery based transactions, regardless of its value. So, a sale transaction worth Rs. 1000 will draw the same settlement fee as a sale transaction worth Rs. 100 lacs. Hence, it is the small investors who are the real victim. This research was conducted to know the opinion and reaction of the investors to this change.

II. OBJECTIVE

- To look at the degree of investors confidence in the Depository.
- To find the degree to which individual investor reacts to the changed strategies of company.
- To find the impact on investors portfolio due to change.

III HYPOTHESIS

- Investors have full confidence on the Depository System.
- Investors are not able to adjust themselves in the changed environment.

IV. METHODOLOGY

Sample

A sample of 55 investors is taken from the directory of the 5 Depository Participants randomly. Out of which, only 30 investors responded to the questionnaire.

Instrument

A questionnaire was constructed on six dimensions to assess the degree of confidence and their reactions to the changed strategies. The questionnaire contained 12 items. The selection of items was made on the basis of the discussion held with Chief Executives and some of the leading trading members of Bombay and National Stock Exchanges. The number of questions, which taped each dimension, was as follows:

1. TRUST ON THE SYSTEM
2. SAFE MODE OF TRANSACTION
3. EXCELLENT SERVICE AND REMOVAL OF TENSION
4. EXPENSIVE OR BURDEN OF EXTRA COST
5. OPINION ON RECENTLY CHANGED FEE STRUCTURE
6. REACTION ON RECENTLY CHANGED FEE STRUCTURE

The objective of first four dimensions is to know the degree of confidence on the system and last two dimensions is to know how the investors react, if

company changes its policies and strategies which have ultimate impact on the investors only.

Each participant was asked to rate his

response on a six point rating scale ranging from low to high score on each dimension. The questions in each dimension were summed up to provide the composite score on each dimension.

V. RESULTS AND DISCUSSION

Table 1 : Level of Confidence on Various Dimensions

| S.No. | Dimensions | Total Size | Mean | Standard Deviation | T-Ratio |
|-------|---|------------|------|--------------------|---------|
| 1. | Trust on the System | 6 | 4.26 | 1.55 | .92 |
| 2. | Safe Mode of Transaction | 6 | 4.13 | 1.56 | .46 |
| 3. | Excellent Service and Removal of Tension | 6 | 4.53 | 1.32 | 2.40 |
| 4. | Expensive or Burden of Extra Cost | 6 | 1.66 | 1.46 | 2.53 |
| 5. | Opinion on Recently Changed Fee Structure | 6 | .36 | .96 | 2.11 |
| 6. | Reactions on the Recent Change | 6 | .76 | 1.05 | 4.47 |

It was hypothesized that Indian Investors have a high degree of confidence on the depository. The setting up of the depositories and the consequent legal changes are a major boon to the investors as a result of the enforcement of Depositories Act, 1996 as it completely deleted the discretionary power of the directors of the listed companies to reject the transfer of securities at their whims and fancies with the onset of trading in the demat form. Traditional settlement system on Indian Stock Exchange gives rise to settlement risk due to the time that elapses before trades are settled. Table

1 shows the level of confidence on the various dimensions as the mean score rating ranged between zero and five of the point rating scale.

On the dimension of "TRUST OF THE SYSTEM" the mean score ranged 4.26 on the six-point scale. Also the ratio was found to be insignificant. Calculated value (.92) is less than tabulated value (2.05). So Null Hypothesis (Ho) is accepted at 5% level of significance. So it can be concluded that people have high confidence in the depository system.

On the dimension of "SAFE MODE OF

"TRANSACTION" the mean score is 4.13. T-ratio is found to be insignificant. Calculated value (.46) is less than tabulated value (2.05) at 5% level of significance. Null Hypothesis (H_0) is accepted. So it can be concluded that it provides a high degree of safety while dealing with electronic shares by restricting bad deliveries, fake certificates, forged documents etc.

On the dimension of "EXCELLENT SERVICE AND REMOVAL OF TENSION" the mean score ranged 4.53. T-ratio is found to be significant. Calculated value (2.40) is greater than tabulated value (2.05) at 5% level of significance. Null Hypothesis is rejected. So it can be concluded that it has excellent services for the investors, which is greater than the assumption mean of 'four point'. It is really an excellent weapon for dealing in the share market which contains less paper work, no bad deliveries, speedy transfers, no forgeries, no loss of share certificates in transit, lesser cost of transfer of ownership and worry free trading.

On the dimension of "BURDEN AND EXTRA COST" the mean score is 1.66. T-ratio is found to be significant. Calculated value (2.53) is greater than tabulated value (2.05) at 5% level of significance. Null Hypothesis (H_0) is rejected. So it can be concluded that it is really an additional cost or extra burden on the investors. The first or main cost could be an advance or deposit for opening the account. This can take different forms for different entities. A bank for example would require a special

saving account with them or a variation of this condition would be that any account would be good enough, but a minimum balance of Rs. 5000 would have to be maintained. While most banks will insist on special account, otherwise non-account holders will be levied an extra charge. Non-Banking entities might even ask for a starting advance, which would be returned on closing of account. The advance is followed by account opening fees.

On the dimension "OPINION ON THE CHANGED FEE STRUCTURE" mean score is 36. T-ratio is significant. Calculated value (2.11) is greater than the tabulated value (2.05). Null Hypothesis is rejected. So it can be concluded that retail investors highly disagree with the changed fee structure.

On the dimension "REACTION ON THE CHANGED POLICY" the mean score is 1.05. T-ratio is highly significant. Calculated value 4.47 is greater than tabulated value 2.05 at 5% level of significance. Null Hypothesis (H_0) is rejected. So it can be concluded that investors are not at all interested to change their portfolio or rematerialise their shares on the changed announcement. It means a retail investor cannot do any thing. The only way he has is to accept the change.

A survey is also conducted on the number of companies with shares held by the investors before and after acceleration on charges. The mean score is 4.44. T-Ratio is highly significant. Calculated value 19.3 is much higher

than tabulated value 2.05 at 5% level of significance. Null Hypothesis (H_0) is rejected. So it can be concluded that it makes no difference for the investors whether charges increase or not. It can be concluded in this way that they became habituated to use the system. Again we can conclude that even regulatory authorities also first keep their prices low in order to attract the customers and when they get habituated then they increase the prices because the customers by then get into the habit to deal in easiest and more sophisticated methods.

VI. CONCLUSION

Thus on the basis of the foregoing discussion, it can be concluded that our hypothesis was partially supported. It would not also be incorrect to say that hypothesis was fully supported, as, no doubt, investors have full confidence in the depository system with regard to its safety, services etc. But it will be wrong to say that investors are not able to change themselves according to the changed environment. Even when Depository brings change in the fee structure our research has found that few investors want to deal in physical shares or get rematerialized if they had already got demat shares. So, it can be easily concluded that investors cope with the changed environment may be due to no other option available to them or they get habituated to use that process or system.

Limitations

One major limitation of the study is that it is based on a very small number of

investors. Secondly to get the information about the personal finance and holdings is very difficult. Nobody wants to reveal the information related to his/her finance and investments. The study did not take into account the other kind of investors like institutional investors. Therefore, the present study needs to be replicated using a larger number of respondents to generalize the present findings. There is also need to undertake research to study the impact of changed fee structure on the institutional investors.

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