

Comparison of Demat Accounts in India Before and After 2014

Dr Veena Mathur lecturer,

Deptt of EAFM

Seth R.L Saharia

govt. College, Kaladera

Introduction

The introduction of Demat (Dematerialized) accounts marked a significant shift in the Indian securities market, transitioning from cumbersome physical share certificates to efficient electronic holdings. Established legally by the Depositories Act of 1996 and operationalized by institutions such as the National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL), Demat accounts have reshaped investing practices in India. By 2014, Demat accounts had become well-established, but several noteworthy advancements and regulatory reforms were implemented afterward, up to 2018, aimed at improving accessibility, reducing costs, and enhancing investor protection.

Demat Accounts Before 2014

Before 2014, the Indian market was still adjusting to the transition from physical share certificates to electronic holdings. The Demat system had been introduced in 1996 to solve various issues associated with physical certificates, such as delays in transfer, theft, loss, and forgery.

- Account Opening and Maintenance: The process was largely physical, requiring multiple documents and in-person validation. Annual Maintenance Charges (AMC) were generally higher and not optimized for small investors.
- Types of Accounts: Primarily, regular Demat accounts were available and used mainly by institutional and retail investors.
- Transaction Process: Processing corporate actions like dividends, bonus shares, and rights issues often required manual interventions from investors.
- Security and Transparency: Although Demat accounts significantly reduced fraud compared to physical certificates, security features were basic, lacking advanced mechanisms like account freezing.
- Market Penetration: Demat accounts were growing in number but had moderate penetration among retail investors due to lack of awareness and perceived complexity.

Changes and Features of Demat Accounts After 2014 (Up to 2018)

Post-2014, the Indian securities market and regulating bodies such as SEBI and Depositories introduced vital reforms to enhance investor convenience and participation.

- Introduction of Basic Services Demat Account (BSDA): To encourage small investors, BSDA was launched with either zero AMC or capped charges for holdings below a certain value, significantly reducing costs for retail investors.
- Streamlined KYC and Account Opening: The process became more digitized with the introduction of eKYC, enabling online account opening and reduced paperwork.

- Automation of Corporate Actions: Dividends, stock splits, bonus shares, and other corporate benefits were automatically credited to investor accounts.
- Improved Security: Features like account freeze/unfreeze became standard, enabling investors to protect their holdings against unauthorized transactions.
- Accessibility: Account options expanded, including minors and Non-Resident Indians (NRIs), with multiple account variants such as repatriable and non-repatriable accounts.
- Increased Market Participation: Demat accounts witnessed rapid growth, with record numbers of new accounts opened in years close to 2018, reflecting increased interest among middle-income groups prompted by socio-economic factors like demonetization.

Comparative Analysis

| Feature | Before 2014 | After 2014 up to 2018 |
|----------------------------|------------------------------------|---|
| Account Types | Only regular accounts available | Introduction of BSDA, minors, repatriable, and non-repatriable accounts |
| Maintenance Charges | Higher AMC, less investor-friendly | Zero or capped AMC for small holdings under BSDA |
| Account Opening Process | Manual, physical document-based | Digital/eKYC enabled, faster onboarding |
| Handling Corporate Actions | Manual claim and processing | Automated crediting of benefits |
| Security | Basic features | Enhanced features including freeze/unfreeze options |
| Market Penetration | Steady but slower growth | Rapid growth, especially post-2016 due to demonetization impact |
| Accessibility | Limited formats and categories | Wider accessibility including minors and NRIs |

Conclusion

The period before 2014 was foundational for Demat accounts in India, establishing the fundamental shift from physical certificates to electronic securities. The years following 2014 up to today saw crucial enhancements that made Demat accounts more cost-effective, accessible, secure, and investor-centric. These reforms played a significant role in deepening retail participation and modernizing India's capital markets.



References

1. NSDL website, <https://nsdl.co.in/> (Accessed 2017)
2. SEBI Master Circular for Depositories, <https://www.sebi.gov.in/> (2014)
3. Frequently Asked Questions about Demat Account. India Infoline, <https://www.indiainfoline.com/> (Accessed 2017)
4. Ministry of Finance, PIB.gov.in - India's Demat account holders more than double in 3 years, 2013
5. Moneycontrol, New demat accounts in 2018 touch 10-year high, <https://www.moneycontrol.com/> (Published early 2019 referring to 2018 data)
6. Growth of Demat Accounts Among Investors in India, Scribd.com, (Accessed 2017)
7. What is a Demat Account? Inani Securities, <https://inanisec.in/> (Accessed 2017)