

Single Demat Account for All Financial Investments



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The concept to enable investors to hold all financial investments in a single demat account has been engaging the attention of policymakers. Considering the immense benefits to the investors, FSLRC has recommended the concept. FSLRC envisages depositories to be market infrastructure institutions that, inter alia, provide 'title storage' to investors in an

electronic form for all financial products, whether traded or not. In his budget speech for 2014-15, the Finance Minister announced the decision to 'introduce one single operating demat account so that Indian financial sector consumers can access and transact all financial assets through this one account.' This is a game-changer development for the Indian financial markets.

Benefits

A single demat account holds the title records of all financial investments of the investor and supports transactions to operate the account. Like funds can be received from anywhere and get credited to a bank account, an investor will be able to make or purchase investments anywhere which can get credited to his demat account. It already exists for traded securities such as shares and bonds, but the plan is to extend it to all financial investments. A single demat account offers great benefits to investors, issuers and the economy.

Benefits to Investors

The benefits to the investor of such an account are numerous and well-recognised.

- **Single view of all investments:** With a single demat account, an investor will be able to get a single view of all his financial investments at anytime in one place. At present, investors need to maintain their own records to keep track of their investments, which most investors find burdensome and as a result, most investors do not have a clear idea of the total value of their investments. With a single demat account, investors can immediately get a consolidated view of all their investments and their value at anytime.

- **No need for safe-keeping of paper:** As all records will be held electronically, there will be no need for safe-keeping of paper certificates or other communications by the investors. A demat account statement will be available periodically as well as on request.
- **Simplified process for notification of changes:** Investors are today required to notify changes in their personal details and other particulars and produce supporting documents to each entity in which they hold investments. These changes are numerous and include change in address, telephone numbers, email, bank account details, new nomination or change therein, change of name say upon marriage, attaining of majority and signature registration, addition of joint holders, change of authorised signatories in a corporate account, etc. With a single demat account, these changes need to be notified and verified at only one place offering unmatched convenience to investors.
- **Simplified monitoring:** Investors will be able to easily monitor their holdings and benefits due in one place, thereby minimising the chances of unclaimed assets and delayed claims which often arise due to poor record-keeping by investors. In fact, most payments including interest, dividend and redemption payments can be made by electronic credit to the linked bank account, with notification to the investor.
- **Simplified transmission and succession:** Nomination and transmission upon death will be greatly simplified as the process will need to be done only at the account level rather than with each entity. It will be easy for legal heirs to obtain complete list of investments held in the account and seek transmission to nominee and in no nomination has been made through the required process for succession.
- **Single KYC:** A single KYC at the time of opening the account will be adequate for all investments to be made by the investor. There will be no need to repeat KYC with each institution. Unlike in the KRA system, the depository participant takes full legal responsibility for KYC and there will be no additional costs.
- **Simplified investment process:** An investor will not need to repeat his personal particulars on the application form each time he makes an investment, since merely quoting the demat account number will be sufficient. Ink-signature on application will not be needed since each entity accepting investments does not need to store the investor's signature which is available in the account using which any requests by the investor can be authenticated. As a result,

investing process can be greatly simplified and can move online.

- **Better portfolio management:** Investors will be able to get a consolidated view of their investment portfolio. They will be able to easily comprehend their allocations across asset classes. They will be able to easily monitor the growth and returns on their portfolio by each asset class and by each investment. Investors will thus be able to shuffle their portfolios to suit their needs, benefiting themselves as well as the economy. The inertia in investment management that accompanies investors' lack of proper record-keeping and monitoring tools can be reduced.
- **Promote retail participation:** With a full portfolio view being available, it becomes possible to convince investors to allocate a percentage of their assets to equity. In developed markets, investors have the culture of allocating a portion of their portfolio to equity with a long-term horizon and such culture is fundamental to regular flows of investor money into the equity markets in those countries. A similar culture can develop in India. With returns on each asset class and investment being visible, investors can make better choices based on actual returns rather than perceived returns which is the case when information is not available on portfolio returns. Factors inhibiting retail participation in the markets in India are structural and need to be addressed holistically.
- **Financial planning can take root:** Investors will be able to track the value of their investments and plan for their life goals more easily thus inducing systematic savings. In times when savings rate is falling and allocation to financial savings is shrinking, inducing greater savings by instituting a culture of financial planning is important. Estimating future requirement of money to meet goals like children's education or retirement and planning savings in order to meet those goals typically results in greater savings.
- **Independent portfolio record:** A single demat account will allow a portfolio record to be maintained independent of a financial services provider. An investor can make his portfolio details available to any investment adviser as he chooses in order to obtain independent advice on managing his portfolio.

Benefits to Issuers

Single demat account has great benefits to the issuers of financial products as well, be they banks, insurance companies, corporates, mutual funds or government small savings organization. Some of these benefits are highlighted below.

- **Substantial cost savings:** At present, each issuer entity sends statements and other communications to the investor. With a single statement, besides offering convenience to investors, the costs of

generating and sending statements would dramatically reduce for issuers across the entire financial system.

- **Shared infrastructure:** The need to maintain separate infrastructure to maintain investor information would reduce. For example, today in the case of companies whose shares are held 100% in dematerialised form, no infrastructure to maintain shareholder data is required by companies. The entire shareholder information including customer master data and transfers is maintained in the depository system which is available to the companies to download as and when required. Only to the extent that shares are held in physical form, a company needs to maintain its own shareholder records. The benefits of such high-reliability shared infrastructure can be extended to the entire financial system, resulting in cost savings.
- **Single KYC:** For an investment to be credited to a demat account, there will be no need to do KYC again as the account has already been KYC-ed. Issuers can reduce KYC costs and also be able to overcome customer resistance to undergo multiple KYC. For example, a bank can easily issue a demat Fixed Deposit to a new-to-bank customer without the need to do KYC. Similarly, an insurance company can issue an insurance policy in demat form to a customer without the need to repeat KYC.
- **Savings in servicing costs:** All routine customer requests such as address change, change of contact details and a number of other changes as detailed above will be handled at account level obviating the need for each issuing entity to process such requests. It will result in enormous cost savings in customer servicing.

Benefits to the Economy

A single demat account can bring several benefits to the markets and the economy as well.

- **Rich data analysis:** Rich data will be available in regard to savings habits, savings pattern, preferred asset classes and trends therein which will be useful to policy formulation. This is especially useful in times of falling financial savings.
- **Assist tax administration:** Data related to investments and benefits will be available which will assist tax administration. It would even be possible to feed such information directly into e-tax returns of assessees.

It would obviously take some time to implement the concept and it would most likely be implemented in phases. The benefits of the single account would, however, be immense and it will be showcase market infrastructure development that India can be proud of.