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Introduction

Managing your finances such as equity or debt can be a hassle, given the tasks you perform every day. Thankfully the Depository Act of 1996 has made it easier for everyone to manage their financial securities in a few clicks. Instead of receiving physical copies of shares or other securities, a demat account helps you to leverage the benefits of an online trading platform where you hold your financial security on a standardised electronic system.

The Government of India introduced the provisions for a demat account in 1996 to keep up with the evolving times where most developed countries offered electronic trading platforms to reduce fraud, improve market efficiency, and ease trading.

According to the [Securities Exchange Board of India \(SEBI\)](#), a demat account is mandatory for anyone trading in financial securities. According to a report, in 2018 about 3.76 million fresh Demat account were open – the highest in a year after 3 million accounts were opened between 2007-2008. It is an indication that interest is growing among investors to directly invest in the [equity market](#).

When it comes to investing in the [stock market](#), opening Demat account is a prerequisite. And, if you are a new investor, having queries regarding Demat account is normal. In this article we will try to answer all your questions regarding [Demat account](#).

What is a demat account?

A demat account stands for ‘dematerialised’ account which means that your shares, stocks, bonds, and other financial securities are now available in electronic form rather than a ‘material’ or hard copy form.

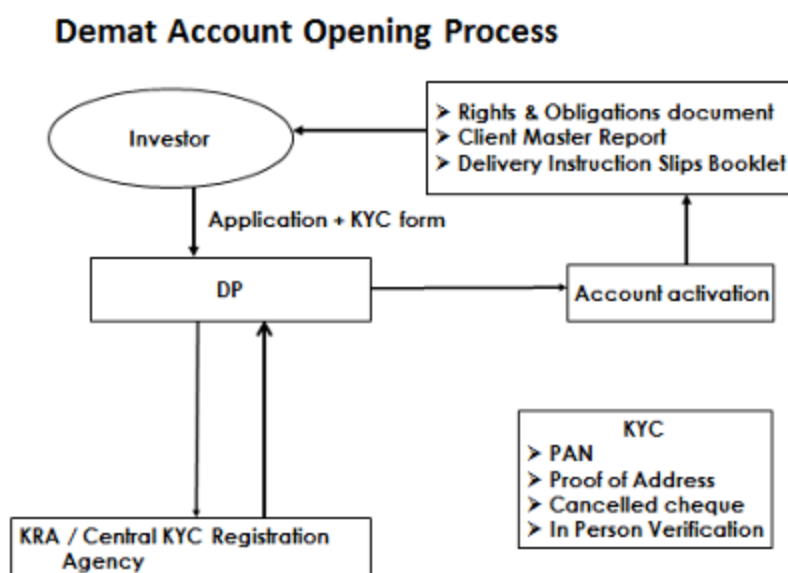
A demat account can hold the following range of securities:

1. [Shares](#)
2. Stocks
3. E-gold
4. Bonds
5. Government securities
6. [IPOs](#)
7. Exchange-traded funds
8. [Non-Convertible debentures](#)
9. [Mutual funds](#) traded on the [stock exchange](#)

You can think of a demat account as any other bank account: it shows your credits, debits, balances, transaction history, and is a place to maintain your finances electronically. There is no lower limit to the value of holdings you

need to have to maintain the account. You can have a zero balance when you open the account, and even during the whole time you hold the account.

Opening account to start stock market investment



Opening Demat account is the first step towards starting an investor's journey. But to start trading, you will need a bank account, Demat account, and a trading account. A Demat account is merely a deposit account used for holding securities for the time you trade. A trading account is necessary to make real transactions. With a trading account, you can invest in a wide range of investment tools such as stocks, commodities, derivatives, and e-gold.

If you think managing three accounts for trading is cumbersome, you can opt for a three-in-one account that facilitates seamless trading. Use the three-in-

one account to reduce time in switching between accounts that can cause you to lose a good a trading opportunity.

Benefits of a demat account

The technological strides made in the last few years has led to a lot of benefits to holding a demat account:

1. Traders can make a transaction at their convenience, making it convenient and time-saving.
2. There is no tedious paperwork required to register transactions.
3. No risk of theft, delays, or forging of physical copies of share certificates, bonds, etc. since the securities are stored in electronic form.
4. You have a single integrated platform for holding debt as well as equity instruments.
5. Automated credits made to registered demat account in case of bonus, splits, mergers, consolidations, etc.
6. Eliminates need for multiple communications: every stakeholder is notified of the transaction through electronic alerts removing the need to contact the company, trader, investor.
7. Address changes are updated with every company invested in by the investor through the Depository Participant.
8. One single share can be bought/sold unlike earlier when shares were transacted only in lots.

9. Removal of stamp duty costs which were otherwise associated with physical records of securities has led to significant reduction in the cost of trading.

Key elements of a demat account

There are four key elements:

1. Depository

There are two authorised depositories operating in India i.e. Central Depository of Securities Ltd and National Depository of Securities Ltd. These two institutions electronically hold pre-verified shares.

2. Depository Participant (DP)

Any financial institution that is registered under SEBI can act as an agent of the Depository and conduct transactions for the investor. Any depository service has to be channelled through the DP. A DP can be a financial institution, a scheduled commercial bank, a foreign bank operating in India (RBI approved), a stockbroker, a clearinghouse, a state financial corporation, a share transfer agent, a non-banking financial company, etc. SEBI assigns every DP a unique code.

3. Investor

The investor is the individual who is the owner of the securities. In this case, the person holding the demat account is the investor.

4. Unique ID:

Every demat account has a unique 16-digit identification number which ensures smooth and transparent processing of securities.

Facilities available with a demat account

A demat account is not only used for holding your financial securities; it also serves many other functions:

1. Investment transfer

The account holder can transfer all or part of their holdings to another person. The account holder only needs to fill a Delivery Instruction Slip with the accurate information and the seamless transfer of shares or other holdings can be carried out.

2. Dematerialisation

The investor can choose to convert their physical share certificates or other physical records of securities into electronic form through the process of dematerialising. To do this, the account holder has to fill out the Demat Request Form (available with every DP) detailing the information of the physical certificates and submit it along with the original certificates to the DP. Since every type of security has a different International Securities Identification Number (ISIN), the investor will have to separate forms for every security.

Once the DP verifies all the documentation, the DP updates the investor account, and the Depository makes a note of the changes.

Similar to dematerialising, a demat security can be processed into a physical record through rematerialising. For this, the investor needs to fill out a Remat Request Form with the ISIN.

3. Collateral for loan

The value of the security holdings can be used as collateral while applying for a loan.

4. Corporate actions

The securities in the demat account are linked with the company. In such a case, whenever there is a split in equity, a bonus is issued, or the company takes any other step concerning the shares or other securities, the investor is notified, and the security status is automatically updated, thanks to the centralised system. A demat account makes it easy for the investor to keep an eye on their investments.

5. Freeze the account

Available only when you have specific securities (and not zero balance) in your demat account, this facility can be used when the investor expects any untoward activities to occur. You can freeze your demat account similar to how you block a bank account or a credit card.

6. E-facility

To enable swift transactions, the NSDL allows the investor to make a transaction and then submit the e-slip to their respective DP.

Types of demat account

There are three types of demat accounts which can be opened in India, depending on the residential status of the investor:

Regular Demat account: This type of Demat account is available to all investors in India. You can approach any depository participant (DP) of your choice to open a regular Demat account. The difference between regular Demat account with the other types is that it doesn't offer additional facilities like international fund transfer.

Repatriable Demat account: NRIs who hold a non-resident rupee account (NRE) can open this type of Demat account. This account allows the international transfer of funds.

Non-repatriable Demat account – non-resident Indians with a non-resident ordinary rupee (NRO) account can open this type of Demat account. However, this does not allow for international transfer of funds.

How to open demat account?

Now that you know the function and benefits of a demat account, you may be inclined towards [opening a demat account](#). Conveniently enough, opening a demat account is easy. It can be done in two ways: offline and online. Let's take a look at how to open a demat account offline.

1. Select a Depository Participant

Once you have compared the services and benefits offered by different DPs, you can finalise the most suitable DP for your needs.

2. Fill application form

You will need to fill out an application form for opening a new demat account. Along with this, you will need to submit a list of KYC documents such as Identity Proof, Address Proof, PAN card, Bank details, and your personal details.

3. Verification process

You will be given a list of rules and regulations to ensure ethical and legal trading, and to clear any doubts you may have regarding holding a demat account and the different functions it serves. The DP will conduct an in-person verification of you and your KYC documents. You will have to pay any necessary fee associated with opening a demat account. The fee depends on the existing policy of the DP. The fee varies from DP to DP.

4. Final approval

Once your documents are verified, and the final formalities are completed, your new demat account will be opened. You will also be given the Unique Identification Number for your account.

List of accepted KYC documents

In order to open a demat account, you will require certain documents. You will need one proof of identity and one proof of address. Here is a list of accepted documentation that can serve as:

Proof of identity

1. passport

2. driver's license
3. voter's ID
4. IT returns
5. Verified copy of electricity/phone bill
6. PAN card
7. Bank attestation
8. A photo ID card issued by a central or state government body
9. ICAI, ICWAI, ICSI, bar council etc, issued identification card with photograph

Proof of address

1. Voter's ID
2. Ration card
3. Passport
4. Driving license
5. Bank passbook/ bank statement
6. Leave and license agreement/ agreement for sale,
7. Verified copies of residential telephone/ electricity bills
8. Self-declaration by High Court/Supreme Court judges
9. A photo ID card with address issued by a central or state government body

10. ICAI, ICWAI, ICSI, bar council etc., issued identification card with photograph and address.

Different charges associated with a demat account

The fee depends on the DP and their policy. Usually, there is a one-time account opening fee; an annual maintenance fee; dematerialisation fee; a transaction fee/commission on every transaction made by the DP.

Usually, the account opening fee is waived while the dematerialisation fee may not exist altogether.

Transferring Shares between Depository Participants

An investor may wish to transfer securities from one demat account to another. When different DPs operate the two demat accounts in question but on the same central depository, the investor needs to fill out the Intra Delivery Instruction Slip and submit the filled slip to their DP. However, if the DPs are on different central depositories then the investor will fill out the Inter Delivery Instruction Slip.

Executing the DIS on the same day as submission requires the investor to submit the DIS when the market is on. This also ensures that there is no delay in the execution of the transfer.

Please note, the broker managing the transfer may charge a transfer fee.

Difference between a demat account & trading account

A demat account and trading account deal with the same elements- financial securities. However, while a demat account holds the securities, a [trading account](#) allows the investor to buy, sell, or trade-in these securities.

One can have a demat account without a trading account but cannot have a trading account without a demat account.

How to open a trading account?

Holding an active trading account means being registered with the stock exchange. This can happen only when you have an active trading account. If you are looking to trade as well, here are the steps to open an online trading account:

1. Compare the services and brokerage rates provided by different firms registered with SEBI.
2. Select the one best suited to your needs.
3. Fill the account application form along with necessary KYC documents.
4. Once verification is completed, you will receive your unique trading account details.
5. Trade away!

Trading using demat and trading accounts

Now that you have both, a demat and a trading account, you can engage in some [online trading](#). Let's take a look at two scenarios, to understand how

your demat and trading accounts work in tandem to help you trade in financial securities.

1. When the investor wants to buy

From your trading account, you can place an order to buy shares. Next, the order gets processed at the stock exchange level, and the shares you have bought get credited into your demat account.

2. When the investor wants to sell

From your trading account, you make the order to sell an x amount of a particular security. The action gets carried out at the exchange level, and your demat account is updated to reflect the debited securities.

The trading can happen online or on call depending on the policy of your broker/firm. If you are requesting a transaction over the phone, have your account details ready as your broker will need to provide those details to complete the transaction.

The exchange verifies the account information provided before commencing the trade. It will ensure the availability of the shares you wish to trade, note the market price, and only then carry out the transaction.

It is advisable to link your demat and trading accounts before you start trading so that you don't have to repeatedly provide the account details each time you make a transaction. Even better is to have your demat and trading accounts with the same firm to remove any additional stakeholders.

Things to remember when you open a Demat

If you are new to the market investor, you need to be mindful about certain essential pointers while you open a Demat. Here are some of those.

Linking is essential: Opening Demat is only half of the job. To start trading, you need a trading account and must link it with the Demat. Without a trading account, Demat account is merely a depository account to store your investments.

Be aware of charges: You must already know that charges vary widely between brokers, depending on their types and nature of services offered. Based on the style and frequency of your trading, you need to select between a discount broker or full-service broker.

Update correct data: When opening the account, double-check the details provided by you. Any error in your application will get it rejected. Also, if you want to change your mobile number or email id, update the same information with your DP to keep receiving regular updates on your account.

Add nominee: Naming nominee is something we ignore, but it is absolutely essential. Adding a nominee to your Demat will help you eliminate lots of hassles in the future, like transferring shares. While opening a Demat it is always a good idea to add a nominee at the beginning.

Be vigilant: Nowadays, most DPs will send you regular transaction/activity updates on your account through SMS and emails. Demat accounts are safe but not protected from fraudulent activities, and so, the responsibility comes to the investor to keep a check on the activities happening in the account and take timely action.

FAQ's

Is it possible to open a Demat account online?

Yes, digitisation has helped in making the account opening process very easy. Now you can open a Demat, complete KYC verification

How many days it takes to open a Demat account?

Initially, it used to take 24 hours to activate a Demat account. KYC verification and self-attestation, the process has become effortless. With INANI SECURITIES, your Demat account gets activated within an hour. And the trading account link with Demat it take 24 hours.

How many Demat accounts can I open?

You can have multiple Demat accounts, and it's completely legal. However, if you want to have multiple accounts, keep the following in mind. Your Demat account is linked to your PAN, which functions as a unique identifier. If SEBI wants to track your transactions, it will do it through tracking your PAN number

Aadhar linking is also important to open a Demat. However, it is a one-time task

You can't open multiple Demat accounts with the same broker

It is a common practice for many traders to have at least two Demat accounts. One with a full-service broker and another with a discount broker. They switch between the two depending on transaction patterns, frequency, and charges.

Is Demat account safe?

Securities stored in digital format in the Demat account are safe from theft or damage. However, risks associated with fraud and misuse remain. So, investors need to stay vigilant of any unauthorised activities related to their Demat account. The broker or Depository Participant will send you regular updates on SMS and emails regarding activities on your Demat account, which you need to track to protect your interest.

Can I open Demat account without Aadhar?

To open a Demat, PAN is essential. However, linking Aadhaar to your Demat isn't compulsory if your mobile number isn't linked to your Aadhaar card. you would need to verify your mobile number through the OTP-based authentication process. You can't open a Demat online if your Aadhaar isn't linked to your mobile number. In the above case, you'll have to follow the offline route – filling up the form manually and sending it to our office.