**Demat**

In [India](https://en.wikipedia.org/wiki/India), [shares](https://en.wikipedia.org/wiki/Share_(finance)) and securities are held electronically in a [dematerialized](https://en.wikipedia.org/wiki/Dematerialization_(securities)) (or "Demat") account, instead of the investor taking physical possession of certificates. A Dematerialized account is opened by the investor while registering with an [investment broker](https://en.wikipedia.org/wiki/Investment_broker) (or sub-broker). The Dematerialized account number is quoted for all transactions to enable electronic settlements of trades to take place. Every shareholder will have a Dematerialized account for the purpose of transacting [shares](https://en.wikipedia.org/wiki/Shares).

Access to the Dematerialized account requires an [internet](https://en.wikipedia.org/wiki/Internet) [password](https://en.wikipedia.org/wiki/Password) and a transaction password. Transfers or purchases of [securities](https://en.wikipedia.org/wiki/Security_(finance)) can then be initiated. Purchases and sales of securities on the Dematerialized account are automatically made once transactions are confirmed and completed.

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## Advantages of demat

The bonus/right shares allotted to the investor will be immediately credited into his account. There is no risk due to loss on account of fire, theft or mutilation. Transaction costs are usually lower than that in the physical segment. A demat account also helps avoid problems typically associated with physical share certificates. For example: delivery failures caused by signature mismatch, postal delays and loss of certificate during transit. Further, it eliminates the risks associated with forgery and due to damaged [stock certificates](https://en.wikipedia.org/wiki/Stock_certificates). Demat account holders also avoid stamp duty (as against 0.5 per cent payable on physical shares) and filling up of [transfer deeds](https://en.wikipedia.org/wiki/Transfer_deed). The biggest advantage of having demat account is that you don't have to pay for stamp since these are electronically stored which reduces the transaction cost.

## Demat benefits

The benefits of demat are enumerated as follows:

1. Easy and convenient way to hold securities
2. Immediate transfer of securities
3. No stamp duty on transfer of securities
4. Safer than paper-shares (earlier risks associated with physical certificates such as bad delivery, fake securities, delays, thefts etc. are mostly eliminated)
5. Reduced paperwork for transfer of securities
6. Reduced transaction cost
7. No "odd lot" problem: even one share can be sold
8. Change in address recorded with a [Depository participant DP](https://en.wikipedia.org/w/index.php?title=Depository_participantDP&action=edit&redlink=1) gets registered with all companies in which investor holds securities eliminating the need to correspond with each of them separately.
9. Transmission of securities is done by [DP](https://en.wikipedia.org/wiki/Depository_participant), eliminating the need for notifying companies.
10. Automatic credit into demat account for shares arising out of bonus/split, consolidation/merger, etc.
11. A single demat account can hold investments in both [equity](https://en.wikipedia.org/wiki/Equity_(finance)) and [debt](https://en.wikipedia.org/wiki/Debt) instruments.
12. Traders can work from anywhere (e.g. even from home).

**Benefit to the company**

The depository system helps in reducing the cost of new issues due to lower printing and distribution costs. It increases the efficiency of the registrars and transfer agents and the secretarial department of a company. It provides better facilities for communication and timely service to shareholders and investors.

**Benefit to the investor**

The depository system reduces risks involved in holding physical certificates, e.g., loss, theft, mutilation, forgery, etc. It ensures transfer settlements and reduces delay in registration of shares. It ensures faster communication to investors. It helps avoid bad delivery problems due to signature differences, etc. It ensures faster payment on sale of shares. No stamp duty is paid on transfer of shares. It provides more acceptability and liquidity of securities.

**Benefits to brokers**

It reduces risks of delayed settlement. It ensures greater profit due to increase in volume of trading. It eliminates chances of forgery or bad delivery. It increases overall trading and [profitability](https://en.wikipedia.org/wiki/Profit_(accounting)). It increases confidence in their investors.

## Fees involved

There are four major charges usually levied on a demat account: account opening fee, annual maintenance fee, custodian fee and transaction fee. Charges for all fees vary from DP to DP.

### Account-opening fee

Depending on the DP, there may or may not be an opening account fee. Private banks, such as [HDFC Bank](https://en.wikipedia.org/wiki/HDFC_Bank) and [AXIS Bank](https://en.wikipedia.org/wiki/AXIS_Bank), [ICICI Bank](https://en.wikipedia.org/wiki/ICICI_Bank), do not have one. However, players such as [Kotak Securities](https://en.wikipedia.org/wiki/Kotak_Securities" \o "Kotak Securities), [Sushil Finance](https://en.wikipedia.org/wiki/Sushilfinance" \o "Sushilfinance), Globe Capital, Karvy Consultants and Bajaj Capital Limited do impose an opening fee. But in Ventura Securities ltd, [Angel Broking](https://en.wikipedia.org/wiki/Angel_Broking) and some other companies do not have an any opening charge. State Bank of India does not charge any account opening charge while other maintenance and transaction charges apply. Most players levy this when re-opening a demat account. However, the Stock Holding Corporation offers a lifetime account opening fee, which allows the investor to hold on to his/her demat account for a long period. The fee is also refundable.

### Annual maintenance fee

This is also known as folio maintenance charges, and is generally levied in advance. It is charged on annual or monthly basis.

### Transaction fee

The transaction fee is charged for crediting/debiting securities to and from the account on a monthly basis. While some DPs, such as SBI, charge a flat fee per transaction, HDFC Bank and ICICI Bank pay the fee to the transaction value, which is subject to a minimum amount. The fee also differs based on the kind of transaction (buying or selling). Some DPs charge only for debiting the securities, while others charge for both. Some DP's also charge the investor even if the instruction to buy/sell fails or is rejected. In addition, service tax is also charged by the DPs

Some of the additional features (usually offered by banks) are as follows. Some DPs offer a frequent-trader account, where they charge frequent traders at lower rates than the standard charges. Demat account holders are generally required to pay the DP an advance fee for each account that will be adjusted against the various service charges. The account holder needs to raise the balance when it falls below a certain amount prescribed by the DP. However, if the holders also hold a savings account with the DP, they can provide a debit authorization to the DP for paying this charge. Finally, once choosing a DP, it would be prudent to keep all accounts with that DP, so that tracking of [capital gains](https://en.wikipedia.org/wiki/Capital_gains) liability is easier. This is because when calculating [capital gains tax](https://en.wikipedia.org/wiki/Capital_gains_tax), the period of holding will be determined by the DP, and different DPs follow different methods. For instance, ICICI Bank uses the [first in first out](https://en.wikipedia.org/wiki/FIFO_and_LIFO_accounting) (FIFO) method to compute the period of holding. The proof of the cost of acquisition will be the contract note. The computation of capital gains is done account-wise.

## Documents Required For Demat Account

To open a Demat account you have to provide documents which fulfill the requirements of KYC (Know Your Customer) norms. You have to sign a contract with Stock broker. Generally the documents are:

* PAN (Compulsory)
* Bank statement (last 3 months)
* Address Proof
* Income Tax Return
* Two colour photos
* Bank crossed Cheque (If required)
* KYC details