

# MCX-SX : India's new stock exchange enabling financial inclusion



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The Indian Financial market has shaped well during the last two decades and is currently witnessing structural changes which is expected to expand investor base, geographical spread, product profile, use of technology to create more technology driven trading (algorithmic trading), participation of banks in providing capital market services and eventually greater participation by global investors, post convertibility of Rupee. The Government, RBI and SEBI are also giving the market very positive push for reforms, growth and greater financial inclusion which entails reaching all financial services and banking services to entire population of the country.

Some of these challenges and opportunities have been documented very well in some of the recent reports of the Government, namely, Rangarajan Committee report, Persi Mistry Committee Report on making Mumbai the global financial centre, Raghuram Rajan Committee Report and the Reserve Bank report. It is good that the Government, RBI and SEBI have been sending very positive signals on market expansion, market development and better investor protection for greater financial inclusion. We think access to market, cost effective credit and best and safe investment opportunity are essential rights of a citizen as other rights like, right to food, health, sanitation, work, information, education etc.

Even as the boom in ICT has been sweeping across even in the hinterland, our financial markets and financial services sector, which have been leveraging the same in their growth, have not succeeded as much in reaching out to the masses due to lack of innovation, non-existence of important products, lack of use of new distribution mechanism of banks or education as a tool to reach the financial services markets to the last mile as done in many developed and emerging economies. Banking industry plays a larger role in terms of meeting demand and supply in India. However, these banks have recently started diversifying into distributing other products or services of which brokerage services are even more recent. Volumes in the Indian capital market still continue to be auxiliary to the banking sector due to the limited reach and the lack of parallel products on the markets to cater to varied demands of various types of participants. Besides, lack of competition in exchange market as witnessed in Telecom, Airlines, Insurance, Automobile and Banking has prevented existing exchanges to have enough inducement to expand market. One of the challenge which needs to be met during the growth phase is to create multiple options for products and participants so that benefit of competition is witnessed in financial services as seen in Telecom, Banking and Airline sector. The benefit of competition to stakeholders in financial services would be of better pricing, better service, better product innovation, deeper penetration, better technology, stable expansion, new generation service providers, better management, greater transparency and most importantly, better investor protection. .

The very nature of Indian market is different as seen from large retail investor population who save over \$ 300 billion of saving but allocate less than 5% to financial sector instruments other than Bank deposits. Similarly there are over 13 million SME's which need more risk capital and not merely debt and these companies need visibility in the market to tap risk capital. Some of these challenges and need for reforms have been very well captured in the above mentioned reports of the Government and recent initiatives of SEBI and RBI indicating the need for second generation financial sector reforms. The country has already benefited with commencement of currency futures and now SEBI & RBI have laid the guidelines for Interest rate derivative market. The policy support for such new developments has been very good. A comparison between macro economic factors of India with a developed country like United States signifies the impending growth and untapped market potential of Indian equity markets. The following table shows the macroeconomic factors of India as against United States and China. The table shows how much penetration India has to achieve and to what extent our institutions have to develop to cater to a large population so that we have an investor base in conformity with the rest of the world and the economy.

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Parameter	United States	India	China
GDP (\$ Bn) (2007)	13,800	1200	3206
Population (in Bn) (2009)	0.3	1.2	1.3
Money Supply (in \$ Bn) (2009)	8,370(incl.MMMFs)	1007	8062
Market Cap. (\$ Bn) (Dec., 2008)	9,200 (NYSE)	650 (BSE)	1400 (Shanghai SE)
Percent of household own stocks	51% (2001)	3% (2002)	NA
Household savings rate (2007)	0.6%	<b>28.0%</b>	24.0%
No. of demat a/cs (in Mn) (2008)	N.A.	15	NA
No. of tax payers (in Mn) (2007)	134	31.5	NA
No. of mobile phones (in Mn) (2009)	260 (2008)	390	650
No. of internet users (in Mn.) (2008)	220	60	253

Today our country has been witnessing excessive liquidity only in equity and equity related F&O. Globally, the interest rate market, currencies and bond trading is much larger than these segments many times over and equity and F&O accounts for only 17% of the total Exchange traded market in all financial products. It is good that new products are now being made available to Indian industry to enable it to manage its diverse risk better. As Indian markets, like all other emerging markets are linked to global markets, we believe all Indian users will be able to have access to all such comparable products in India to manage their risk. Further, there is also a growing need being expressed by Indian industry to have Indian market trading during global timings so that Indian industry may not be required to react with a lag while managing their risk which global players can manage through their 24 hour trading desks across all markets.

In pursuit of above growth parameters, we are witnessing for the first time since 1994, a discussion on greater competition, more participants, and new trading segments to achieve the levels of USA and China. Since 1994 for the first time we are seeing more new Exchanges planning to provide these services as India has seen the benefit of greater competition in telecom in achieving greater penetration, better services and lowering of prices with greater expansion of market. MCX-SX has been established as a new stock Exchange under these expectations. The uniqueness of MCX-SX and some of the very integral advantages available to MCX-SX in such a growth environment are as follows:

- MCX-SX has the advantages of over 2000 potential members available to it through MCX, of which over 800 have already applied for membership and over 600 are already registered with SEBI. The 2000 members of MCX include 1000 members of NSE & BSE and the balance 1000 include commodity related members spread across the country which includes all major cities and important semi-urban commercial cities dealing with the commodity economy of the country which has a annualised production and consumption of over Rs. 10,00,000 crores.
- Managing Exchanges is increasingly a function of greater control on technology support and domain. With FTIL being a promoter of MCX-SX, gives it a very big advantage of having access to best technology as FTIL manages 10 Exchanges in multiple asset classes in India and globally under 10 different regulatory regimes. Further, FTIL technology is used by almost 90% of Indian brokers who use over 400,000 terminals to access different market. This distribution network will also be able to access MCX-SX technically by using appropriate technology bridge.
- The management team of the group has very intensive experience in managing Exchanges in multi asset and different regulatory regimes in India and abroad which makes it more competent to handle regulatory compliances of global and domestic nature, competition, innovation, service levels, technology differentiation, risk management, clearing differentiation, institutional business, etc. MCX happens to be the seventh largest commodity Exchange in the world and it being the promoter of MCX-SX provides added confidence to the end users who expect greater innovation and high standards of service from an Exchange.
- The brokers and clients of MCX-SX are more equipped to trade in global environment as they have been operating in global asset classes taking a view on prices of various products simultaneously as the global markets participants have been taking a view, and therefore, more accustomed to movement of global markets, currencies, interest rates, economic data, etc.
- Future growth of markets will come from use of technology (algorithmic and mobile trading) and participation by banks in providing these Exchange traded services to its large client base. MCX-SX has the advantage of FTIL for technology related growth and advantage of largest banks being shareholders of MCX-SX to use their distribution network for greater domestic expansion.

We therefore believe that as capital markets develop further with new products, new exchanges, new distribution mechanism, new support system and new technology, it would lead to development of effective forward and backward linkages and, thereby, widening and deepening the participation by all stakeholders who invest, provide various support services or those who tap the capital markets for their capital needs. Well-developed markets with better integration with the ecosystem and wide participation would lead to the ultimate objective of 'Financial Inclusion' as being pursued by the Government. It is noteworthy that the above developments are being well discussed and decided by the Government, RBI and SEBI to ensure India has its rightful place in the global market and to serve the region in times to come as Indian Rupee goes convertible in the future and market access is enhanced through IDR's and through other routes. The good news is that these developments are now at a near take-off stage and an Exchange is making all effort to prepare oneself to make the best use of this emerging opportunity. Amongst the many things we are doing how to prepare oneself for this opportunity the most activity is spreading financial literacy so that end users become aware of their financial rights and opportunities available and those to come.

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The views expressed by the author are personal and do not reflect those of the exchange