

Implementation of Digitalization & STP Processes in the Capital Market- the CDSL Way



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The penetration of the Capital Market to the Indian population is negligible. If the 2.5 crore demat accounts are considered, the penetration would be about 1.5 %. Further the concentration is in the major cities with very little exposure in Tier 2 & Tier 3 & practically NIL in rural areas. In order to expand the Capital Market especially the MF Investments, full-fledged automation and digitalization is the only

alternative.

Indian capital Market, which is one of the Advanced Financial Market in the World, has to undergo a Digital Transformation if penetration has to increase. Convenience of the Investors, with ease to do business to Intermediaries and Compliance of regulations should be taken into Consideration for this transformation.

The first step in Digitalization and STP was implemented by the depositories by Introducing Power of attorney concept and linking the same to the broking accounts of the Intermediaries. This has eliminated the need to collect Delivery Instructions Slips for trades on the exchanges. Further it has enabled the brokers/Clearing members to upload the Instructions for the clients who have Issued POAs in their favour, through their secured login through Internet facility of the depositories. Thus the entire Payin process for sale of security has been fully automated using STP.

The trades are captured in the trading front end of the brokers & move to the exchanges seamlessly. The status/ trade confirmation is received and passed on to the settlement system of the brokers. The system checks for POA of the client & generates delivery instruction from the respective A/cs where client securities are held. This is automatically passed on to the depositories who debit the Account based on the type of instructions. Mostly all brokers do early Payin to get benefit of Margin exemption.

Even though the process of Trades, Transactions i.e. Payin/ Pay-out process has been digitalised as explained above, the main process of on boarding of client i.e. KYC and Account opening is still manual & involves collection

of Physical forms and documents. This is the main hurdle in spreading the reach and penetration of the capital market. This can be eliminated.

The digitalization process for Account opening would involve:

- Digitalizing data in collection End (Client end)
- Populating data from existing databases i.e. KRA/ Aadhaar
- Instantaneous transfer of Data to Central System for online processing of Account opening is implemented
- Automated transfer of Data to Respective 3rd Party System such as Exchange (UCC), Depository (Demat A/c), KRA (KYC), AMC/RTA (MF Investments) is done

Recent Regulations and Systems have made it possible to perform the above. SEBI has helped this transformation by Introducing KRA Regulations and Accepting Aadhaar based e-KYC and e-Sign.

Aadhaar based KYC has been accepted by SEBI, wherein based on the clients permission, the KYC details provided by the customer during Aadhaar can be downloaded. In such cases SEBI has permitted that KYC form with sign and Photograph of the client need not be taken. Thus enabling full automation and digitalization of KYC process. Further, in order to Popularise MF Investments, SEBI has done away with need to do IPV for Investors doing e-KYC using Biometric & has also given further exemption from IPV for MF Investments upto Rs. 50,000 per MF Per Year where e-KYC done through OTP Method

However no Exemption from obtaining Account opening forms & Signature has been given to demat and broking Account. Thus in order to facilitate digitalization & Eliminate physical paper taken for client signature, the e-Sign facility permitted by Controller of Certifying Authorities (CCA) can be used to affix the Digital Signature of the clients on the said forms.

The process involves issue of one time Digital Signature (which can be used for signing only one Document /file) by the e-Sign Service process (he has to be a CA - Certifying Authority) using Aadhaar Authentication through OTP or Biometrics.

Thus the process of IPV is the only process left where some Physical contact, this process has also be eased by SEBI by allowing Intermediaries to do IPV through Webcam or other electronic means. Even this will be eliminated when Mobile Phone with Biometrics will get evolved & Popular and Aadhaar authentication can be done using Biometrics.

CDSL through its Subsidiary CVL has incorporated an Automated Digitalized IT Based system for the digitalisation of A/C Opening Process

- Clients/ Representative of the Intermediary can use the system
- The following Procedures are Used
 - Collect available Data and Prepopulate the same from
 - KRA Database OR
 - Aadhaar Database
 - Allowing Modification to the prepopulated Data
 - Fill in the Additional details required for KYC/ Demat/UCC/ MF A/cs
 - Electronically Submit the Self Certified copies of the documents if any.
- Use e-Sign to digitally sign the Demat and broking forms.
- After system validation, the data is passed to the Intermediary for Automatic updation of all Systems – Internal and External

Digitalization of other Process:

e-Sign mentioned above can not only be used for Account opening but also for other process in capital Market. This could be collection of Instructions for trades & transfer in Demat Accounts, Accepting change/updation of client's details such as mobile number, telephone, nominee details, collection of various declaration etc.

Implementation of Digitalization of Account opening has been made Simpler by Introduction of following facilities:

- **Web Integration for the CVL KRA services** – Intermediary can Link his Account opening module/ Back office to the CVL Database
 - o Intermediary can Instantaneously check the KYC status in any of the KRA at the time of Account opening
 - o The details of the Customers can be downloaded online.
 - o Convenience of the customer as their details are prefilled and they have to check for Updates
 - o This decreases the time of both Investors and Intermediaries
 - o Details of the customers Updated in the Back office can also be automatically Updated into the KRA System
- **KYC Status Through SMS** – Automation of systems would not serve the purpose unless the field staff contacting the client is also given a facility to verify whether the client is KYC compliant. Thus CVL has introduced a facility to check KYC status of a customer using SMS & also fetch the data

- o **Check KYC Status:** Representatives of the Intermediary can check the status of their clients KYC through a SMS from Registered mobile. This eliminates the need to collect KYC Form & Documents, in case client is already KYC verified.

- o **Fetch KYC:** In case the KYC is available, the representative can also fetch the Address through SMS to enable him to decide whether to collect Proof of Address Documents. Further, the entire details of the KYC are automatically downloaded to the Intermediary for systematic update in internal systems for completion of A/c opening process.

- **Insta Demat Account:** CDSL DPs can Pre – generate the Demat A/c Number for their clients using Insta Demat A/c feature. This number can be assigned to the clients who is using Online Ac opening and the Account can be opened instantaneously. The details of the Customers to be linked to the Pre generated A/c number and Uploaded to the CDSL depository system later on. Further this facility if used by the representative of the DP collecting physical forms enables them to handover the Account opening Kit to the client immediately on receipt of A/c opening form and related documents.

- **e-KYC Aadhaar Software Integration:** CDSL has enrolled as a Service Provider (ASA/ KSA) both Authentication and KYC service Agency in UIDAI. CDSL also offers the Software as a Service (SAS) to enable the Intermediary to Integrate with Aadhaar at a nominal cost & implementing it in the shortest possible time.

All these initiatives once implemented by majority of Intermediaries will go a long way in full automation of the account opening process and help reduce effort & Cost of the Intermediaries. The biggest beneficiaries would be the AMC's who would be able to on board clients & also accept financial & non-financial transactions electronically. This in turn will help spread the penetration of the capital market.