

Demat : Achievements and Challenges

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NSDL, the first Depository in India set up in 1996, has in the last three and half years of its operations brought about revolutionary changes with respect to settlement of trades in the Indian Stock Exchanges.

In the paper-based settlement of trade that existed before the establishment of NSDL, the buyer was at an inherent

disadvantage with respect to the seller. Although he had to part with good funds at the time of pay-in, the title of the paper-based assets (share certificates) he received in lieu of the funds, was not always certain. To ascertain the title, the buyer had to send the papers again for registration to the concerned company or its registrar & share transfer agent, which may take anywhere between one to three months. Many a time, the certificate would come back to the buyer on account of objections. The buyer, then, will have to initiate necessary follow-up with his broker, to ensure that the objection was rectified and thereafter, send the papers again for registration. Sometimes the company could discover the certificate as forged/ fake. There were also associated risks related to theft/ forgery while the transfer deeds were in transit. Last but not the least, the costs associated with the entire transfer process viz., stamp duty, postal charges, etc. were phenomenally high.

Setting up of NSDL not only eliminated the problems associated with paper and paper related frauds but also transcended all geographical barriers to settlement, synchronized settlement and transfer process, reduced risks and costs, and finally facilitated, a migration to a faster and more efficient settlement process.

Benefits of NSDL

- ↳ No bad deliveries
- ↳ Effects transfer of securities immediately
- ↳ No stamp duty on transfer of shares (saving of 0.5%)
- ↳ Reduces handling of large volumes of paper
- ↳ Eliminates risks associated with physical certificates such as loss, theft, mutilation, forgery, etc.
- ↳ Reduces transaction costs
- ↳ Facilitates pledging/hypothecation of securities in a safe and cost effective manner
- ↳ Facilitates stock lending and borrowing
- ↳ Provides for retail participation in government securities
- ↳ Facilitates movement towards faster settlement cycles.

Progress

The rapid progress achieved by NSDL in the recent past is a clear demonstration of the confidence build up among the various market players in the NSDL system.

↪ Two and a half million investor accounts...

The number of client accounts has grown to over two and a half million and these are spread across the country. In addition, the accounts opened by NRIs cover about 45 countries like USA, Canada, Germany, England, Switzerland, UAE, China, Russia, Japan, Singapore, Australia, New Zealand, etc.

↪ Rs. 3310 billion in custody...

The assets dematerialised in the NSDL system have grown to about 17 billion shares valued at about Rs. 3310 billion by end of May 2000.

↪ 90% settlement in demat form

More than 90% of settlement in value terms in Indian Capital market is now in demat form. In May 2000, the settlement value was Rs. 136 billion.

↪ More than 1400 DP locations

134 depository participants are providing services to the investors on behalf of NSDL from about 1400 offices spread across the length and the breadth of the country. These participants include 34 banks, 3 custodians, 82 brokers and 15 other institutions.

➔ **1000 securities ...**

About 1000 actively traded securities forming about 85% of the market capitalization are available for dematerialisation in the NSDL system. They include all companies in the S & P CNX nifty index, BSE sensitive index, CNX nifty junior index and BSE forward list.

➔ **Ten Stock Exchanges**

All major stock exchanges in India accounting for more than 98% of the trading volume are linked to NSDL to provide facility for trading and settlement in demat securities. These include National Stock Exchange of India Limited (NSE); The Stock Exchange, Mumbai, (BSE); The Calcutta Stock Exchange Association Limited (CSE); The Delhi Stock Exchange Association Limited (DSE); Bangalore Stock Exchange Limited (BgSE); Madras Stock Exchange (MSE); The Inter-connected Stock Exchange of India Limited (ISE); The Over the Counter Exchange of India (OTCEI); Ludhiana Stock Exchange Association Limited (LSE) and The Stock Exchange, Ahmedabad (ASE).

SEBI mandates compulsory settlement of trades in demat form

The successful implementation of depository project by NSDL has given confidence to SEBI - the regulator for the Indian Capital market, to initiate a series of policy changes to shift the settlement from physical to demat form.

For all categories of investors, settlement with respect to 441 actively traded scrips is only in demat form. SEBI has added 142 scrips to this existing list, thus bringing the total number of such scrips to 583 by end of June 2000. SEBI has further stated that around 2500 more scrips will be brought in this list by March of 2001.

For institutional investors, settlement with respect to 723 actively traded scrips is only in demat form. SEBI has added 184 scrips to this existing list, thus bringing the total number of such scrips to 907 by end of June 2000.

The securities of any company coming out with a public issue will automatically be traded in the compulsory form for all categories of investors. This is applicable to all offer documents approved after February 9, 2000.

Certification programme on depository

NSDL recognises that quantitative progress would be ineffective if it is not backed by quality depository services. Thus, it was imperative to ensure that the staff of the business partners are sensitised to service standards and efficient depository operations. Towards this objective, NSDL has been conducting a series of Branch Empowerment Programmes (BEP) for the staff of the Participants across the country. These programmes focus on the importance of service

standards and adhering to these standards offered by the Participants to their clients. NSDL has also embarked upon a series of Procedural Training Programmes (PTP) which are more detailed and cover all the operational aspects of depository services. With quality depository services in mind, NSDL has also launched a Certification Programme on depository. Candidates successfully clearing such a programme add to the human resources pool qualified in depository operations.

NSDL has made this Certification Program on Depository mandatory in phases for the staff of its Participants.

Shareholders of NSDL

Three largest institutions in India viz., Industrial Development Bank of India (IDBI), the largest development financial institution; the Unit Trust of India (UTI), the largest mutual fund and the National Stock Exchange of India Limited (NSE), the largest stock exchange; took the lead in promoting NSDL. Subsequently, State Bank of India; Dena Bank & Canara Bank – prominent commercial banks from the public sector; HDFC Bank & Global Trust Bank - leading private sector banks in India and HSBC, Deutsche Bank, Citi Bank and Standard Chartered Bank - leading foreign banks in India have taken a stake in NSDL.

The Challenges

Though NSDL has witnessed rapid progress and enjoyed support of regulators, great challenges lie ahead.

➔ **Investor education:** NSDL's endeavour is to make the investors fully aware of the rights and benefits in the depository environment, and retain the confidence reposed by them. To meet this challenge, NSDL has organised a series of Investor Depository Meets (IDMs) across the country. The IDM locations also cover smaller places in the country like Kakinada, Sangli, and Karnal. NSDL has also made available related literature free of cost to investors. NSDL's website <http://www.nsdl.co.in> aims at providing information that is sought by a lay investor to an avid researcher.

➔ **Strengthening the infrastructure:** The increasing client accounts and transactions puts a stress on the depository infrastructure. This will demand a continuous upgradation of processing power required. NSDL endeavors to keep up with the changing technologies to ensure adequate computing and telecom infrastructure to meet the needs of its Business Partners.

➔ **Training Business Partners:** Swift growth in terms of number of accounts opened achieved by service centres of Business Partners, require good training to maintain quality service. NSDL has chalked out plans to conduct training programmes across

the country and make its certification module available more easily to staff of Business Partners' service centres all over the country.

- ➔ Settlement of all trades in the equity market to shift to the depository way: More and more companies are being brought into the compulsory demat settlement list by SEBI. NSDL's task is to enable registration and effectively service these issuers of securities.
- ➔ Enabling the Market to move from Account Period Settlement System to Rolling Settlement System: NSDL has made it possible to change gears and move into the fast lane of rolling settlement by facilitating ease in movement of securities. Stock Exchanges are now in a position to further reduce the cycle from T+5 today, to say T+3.
- ➔ Stock Lending & Borrowing (SLB): The fungible nature of securities in demat form and their safety is expected to aid SLB which is expected to grow significantly in the near future.
- ➔ Debt Securities: With stamp duty now being waived for debt securities held and settled in demat form, the role of NSDL will be to stimulate

the debt market by providing a nation-wide secondary market, and make access easier for the retail investors. Though few debt securities are already available for demat in NSDL, an enormous list of a variety of securities are expected to be available for demat in NSDL in the near future.

- ➔ Internet based Services: With electronic movement of securities made possible by NSDL, the platform for investors to engage in e-broking and e-transfer has now been made created. The Internet is expected to take the capital market in the country to a new level.
- ➔ Derivatives Market: With SEBI having given the go-ahead for derivatives trading, this segment is expected to take off furiously. Establishment of derivatives market will provide momentum to cash market. A pre-condition to derivatives is to have the underlying securities as collateral in demat form.