

Powering Inclusion: The Role of Technology and Innovation in the Securities Markets



Nehal Vora
Managing Director
 Central Depository
 Services Ltd.

The Indian securities markets have witnessed unprecedented growth in the last two decades, scaling new heights and rising consistently in the global rankings. With a market cap exceeding USD 5 trillion, India ranks fifth globally, according to the Economic Survey 2024. This growth is evident across various market segments despite a challenging global backdrop marked by rising interest rates and geopolitical risks.

Thanks to the surge in the domestic investor base and increasing retail participation, India's securities markets have outperformed peers.

This buoyance has also percolated to the primary markets, with more Indian companies aiming to go public. The year has already seen multiple IPOs and more than 60 companies across various sectors have filed draft offer documents with SEBI in CY24 so far.

The surge in IPOs may continue to bring in new retail investors who have easy access to digital trading platforms and expectations of capital appreciation. This influx is helping in making the securities markets more inclusive and available for everyone. Most importantly, higher retail participation along with domestic institutional investment has made the Indian markets more resilient to global shocks.

This strength is also visible in the real economy, growing from ~USD 288 billion in FY93 to USD 3.6 trillion in FY23, reflecting an almost twelve-fold increase¹. RBI's recent Financial Stability Report also emphasizes on the strength in domestic financial conditions characterized by healthy balance sheets across financial institutions, strong capital buffers, improving asset quality, adequate provisioning and robust earnings. With the government targeting a GDP of USD 5 trillion in the near term, our securities markets offer an immense opportunity for domestic investors, who can benefit from India's journey towards becoming a 'Viksit Bharat'.

To optimize this, we must ensure that our markets remain and become more inclusive, accessible, and efficient for all participants. Technology and innovation will play an important role in this.

Technological Advancements in Securities Markets & Role of MIIs

Market Infrastructure Institutions (MIIs), under the guidance of the market regulator, SEBI, have played a key role to make securities markets more robust, transparent, and inclusive. This results in the smooth functioning of the securities markets, widening the base of new age

investors and deepening the reach of the markets.

Of the MIIs, Depositories, in particular have an important role. They help in dematerializing various forms of securities to ensure safety and convenience of holding and trading securities, reducing the risk of theft, loss, or damage. By allowing investors to hold multiple securities in a single account, investors can easily manage and track their investments. E-services including e-voting, e-disclosures, and e-statements have enhanced transparency and access, empowering investors with real-time information and the ability to participate actively in corporate actions. Depositories conduct regular investor education programs to enhance financial literacy.

For instance, Central Depository Services (India) Limited (CDSL) as a depository has over 12.96 crore demat accounts as of July 2024 and collaborates with more than 580 depository participants (DPs) to provide seamless services for a diverse range of securities across multiple asset classes.

On the regulatory front, recent moves by SEBI like the introduction and proposed wider rollout of the T+0 settlement mechanism, increasing the value of basic service demat account (effective Sept. 1), direct payout to the investor's demat account (effective October 2024) and reduction in face value of debt securities to Rs 10,000 are some of the many measures aimed at increasing retail participation.

There have also been active measures to address information asymmetry in the markets by ensuring that investors get relevant information in a timely manner through disclosures, including those in the XBRL format. Initiatives such as introduction of investor risk reduction access (IRRA) platform providing a special window for investors to directly access stock exchanges in case of significant broker downtime and increasing usage of analytical tools and artificial intelligence for market surveillance have added to the trust in the securities markets.

Online filings and real-time reporting have slashed administrative burdens and enhanced transparency. In our digital-first world, robust cybersecurity measures are more crucial than ever. Robust protocols have been established to safeguard market infrastructure and investor data. Lastly, surveillance systems to detect and address market irregularities promptly have ensured a higher level of integrity of the markets.

How have Depositories leveraged technology to power inclusion and improve market efficiencies?

Depositories have been instrumental in driving technological advancements. These include:

- **Electronic Margin Pledge:** Electronic Margin Pledge system allows investors to set up online margin pledges or margin funding requests easily. This API (Application programming interface) for DPs (Depository Participants) includes a verifiable mechanism for clients to confirm and invoke pledges, boosting the security and efficiency of the margin

pledge and re-pledge processes. This innovation not only streamlines transactions but also enhances the overall security of financial operations.

- **E-voting:** This initiative by Depositories aims to revolutionize shareholder voting by making it easy and transparent. Investors can vote electronically on resolutions from anywhere, at any time, using this user-friendly platform. Real-time updates ensure a seamless and efficient voting process. Wider participation of shareholders with an intent of a wider shareholder activism.
- **Two-Factor Authentication:** To enhance security, depositories have implemented two-factor authentication (2FA) for all online transactions. This adds an extra layer of protection, ensuring that only authorized individuals can access and manage their demat accounts. By requiring a second form of verification, such as a mobile OTP or biometric authentication, depositories significantly reduce the risk of unauthorized access and fraud.
- **Electronic consolidated account statements (eCAS):** eCAS provides a consolidated view of investments in demat accounts and in MFs. This service gives investors faster updates compared to traditional physical statements. To make it accessible and relevant, the Ecas is available in multiple Indian languages.
- **Chatbots:** Through interactive chatbots, investors get relevant information about securities markets. By acting as companions, chatbots simplify processes and enhance the investor experience.
- **Leveraging social media:** Depositories actively utilize social media platforms to engage with a younger

demography and enhance investor awareness. They regularly publish engaging and informative content in the form of videos, quizzes, and posts to sustain audience interest.

Boosting Retail Engagement as the Foundation of Inclusive Growth

Thanks to regulatory measures, technological advancements, and the proactive role of MIs, there has been a significant increase in retail participation. This shift is crucial for making financial markets even more accessible and democratic. As technology evolves, it will attract more and more first-time investors. Healthy growth of securities markets will thus truly help India's investors and spread the fruits of economic growth benefitting the society at large.

From the vibrant IPO landscape to the crucial role of MIs, technology and innovation are collectively powering inclusion. Various MIs have organized investor awareness programs, which have been instrumental in empowering individuals to actively participate in the securities markets. By extending reach to financial instruments and knowledge, these initiatives have fostered a more inclusive investment landscape. Efforts to reach investors in diverse geographic locations have been made to ensure widespread participation and financial empowerment.

A thriving ecosystem will be cultivated where all investors have the opportunity to prosper and reap rewards. Proactive efforts now will contribute to greater investor participation and a brighter 'Viksit Bharat'. As Mahatma Gandhi aptly affirmed, *"The future depends on what you do today."*

¹ Economic Survey 2024