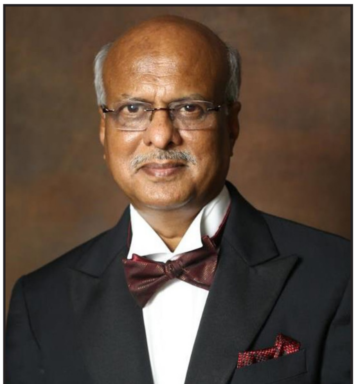
Paradigm shift: India a Product focussed Advanced Capital Market



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Last year, I penned an article which was published by a global publication- The Global Custodian(GC),“**Is India an emerging or advanced market?**”. I was surprised to hear that it was the most read blog globally. This a few months after India successfully rolled out T+1.

In July 2024, the same publication GC carried my second article,“**India’s path to settlement success with T+1**”. Once again the readership started growing.

It meant one thing: India interest was growing- across segments, boundaries as it had a lot more to offer, especially more products than many other markets or what it did even as recent as 5 years ago. The numbers look flattering with regards to the attractiveness of the Indian capital markets. Their significance grows when one considers that it took 60 years from Independence in 1947 for India to become a $1 trillion economy, but the next $2.3 trillion came in 15 years. India aims to be a $10 trillion economy by 2035!

SEBI leads:

SEBI successfully navigated the Indian Capital market (known as mostly a risky market- a little over a decade ago) to be an attractive **product market**. This is a significant change, in perception, attractiveness, and in creation of wealth.

The leadership teams at SEBI focussed on: Regulations, Policies, KYC, Technology, market infrastructure, BCPs, Investor education, settlement guarantees, ease of doing business, Industry engagement, white papers, the introduction of irreversible delivery instruction, digitization, electronic banking, and more. It spawned interoperability, and interconnectivity, enabling Margin pledge and Margin Fund Pledge, use of APIs, early pay in, instant account opening, products, and new Investor segments.

Product driven market:

Developed markets are associated with products and possibilities of wealth creation. Some of the recent key drivers that have contributed to the growth and visibility of Indian capital markets and thereby advanced India’s case to be recognised as an advanced market comprise of : over 30 products by MIIs; T+1; AIF growth; increased investor base; MF segment, digitisation; global recognition and participation; and GIFT City.

The product suite and the participants have expanded in recent years. At an Exchange level NSE has over 28 products across, Equity, derivatives, Commodity, and Currency. BSE too has an array of differentiated products. So does MCX. The advent of the MSME segment and Social Stock Exchanges widened the offerings of the Exchanges. **India is already an advanced market, simply awaiting acknowledgment, if one goes by the normal parameters.**

Diverse segments offer new products:

The above spawned tens of products across the multiple segments that make up the market intermediaries. A couple of decades ago the segments were FDI, FPI, Retail, and Institutional. While they expanded, new segments including MFs, AIF, PMS, PEs, Insurance, Bonds, etc. came up with rapidity, addressing the demands of discerning Investors. This aligned with the sweeping changes SEBI initiated. The addition of Indian Bonds in the MSCI, JPM as well as Bloomberg index add volumes and also created a new segment!

The Indian Capital market over the years has Investors identified by their type. Furthermore in each of the said segments, participation grew to record highs- for e.g. over 11000 FPIs, 47 MFs, over 1300 AIFs are registered with SEBI. The nos of listed companies on the Main Board, SME Board, and the Social Exchange too has increased- offering wider choice in wealth creation. These are serviced by brokers, custodians, tax firms.

Currently, 160 million demat accounts exist making up to approx. 12% of the population; Domestic Investors log from 99% of the pin codes in India; foreign investors (FPIs) from 60 countries actively participate (many from countries which have yet to migrate to T+1). Such attractiveness and wealth creation have no parallel in a short time.

To ensure that it’s not only resilient but also caters to all segments of the population, the Regulator is encouraging product manufacturers to make small sized MF products while at the same time discouraging small investors from the high risk derivatives segment. Client-centricity, Liquidity, and risk management gained significant importance. Wealth creation with caution.

All of the above and more have helped the market cap to breach the $5 trillion mark, while readying for the next $2 trillion of market cap.

Two key ingredients for T+1 success can be summarized as:

1. Leadership by the Regulatory entity SEBI supported by the MIIs (Exchange, Depositories, Clearing houses)
2. The participants (including global Investors) faith in 1 above, led to investing in the needed change

The combined efforts of Regulator, Exchanges, CSDs, and CCPs have collectively contributed to measurable outcomes, enhancing opportunities for both investors and intermediaries.

The above yielded/continues to yield significant multiple benefits. The one-day takeout resulted in improved market liquidity, though the market liquidity may not be same across stock types.

The resultant below-listed outcomes collectively contributed to a more diversified, efficient, and attractive market ecosystem increasing opportunities for investors and Intermediaries alike. The qualitative outcomes have been abundant and can be bucketed into the below and measurable.

Funding and Liquidity:
1. New products are imagined, launched almost a few every day adding liquidity, subscription while being an alternative to banking products and bullion and real estate (though REITS are gaining acceptance)
2. Decreased funding liquidity demand given lower margin requirements
3. Adoption of newer, swifter, lower cost digital payment modes- The UPI
4. Most beneficial where the cost of funds is more expensive, especially in markets as India
5. Higher Liquidity due to shorter settlement cycles

Confidence, Transparency:
1. It increased Investor confidence and enhanced Investor protection
2. Paradigm shift from Risk containment to product innovation
3. Focus on Comprehensive training initiatives for resource development and upskilling thus building qualitative resources

Digitization, Standardization, Operations:
1. Improved Digitization, higher Straight Through Processing rates
2. Development of Standardized Operational Process at Industry level
3. Emergence of Integrated solution providers
4. Development of best practices and customized solutions
5. Adoption of APIs and other technology tools to enhance market operations
6. Phased rollout of framework provided flexibility to make system changes, procedural modifications
7. Mitigation of Reduced Counterparty Risk and exposure, improved efficiency, at CCPs and market Participants

Wealth Creation, Attractiveness:
1. Improved market attractiveness
2. Increase in the product types and class
3. Diversification of Investor base from over 60 countries
4. Increased activity from FPI, PE, AIF
5. Potential to boost liquidity in less liquid stocks as well, especially in those markets where listings are few/ markets are unattractive

There have been hiccups as well:
1. Initially there was an increase in trade breakages/ fails (esp the cross border). These increased costs, however gradually reduced
2. Elevated attrition in headcount due to increased volumes, evolving client expectations, and operation stress
3. More Investments were required for managing risk, compliance, technology upgrades
4. The financial landscape witnessed a transformation where digitally efficient providers outperformed; smaller players unable to adapt
5. Short term frustrations, stemming from rapid changes created challenges. That being addressed, the market started overperforming
6. Cross-border investors and providers had to adjust their operational readiness, due to differences in time zones. This necessitated robust systems for liquidity flow and settlement, per the needs of a single market

The inclusive positive approach:
Assessing and managing change that engages diverse stakeholders, management of Operational risk, led by astute leadership of policy makers toward a singular goal of wealth creation is what it took to pole-vault India into the leadership position and its continuity.

No longer is it about defending the existing. T+1 is here to stay and is a precursor to developing into products markets, which appeals to the temperament of the Investors wishing a choice.

Future perfect:
Development is a continuous process and such standout areas could be:

Awards and recognition: India and Asia related awards and recognition by global entities such as Global Custodian, Asset Servicing Times, Asia Asset Management, FOW, The Asset, Global Finance and Regulation Asia are increasingly bagged by Indian Institutions (20 in year 2023) and emerged alongside their global peers. This significantly increased the visibility of India, Indian entities and also provides the end user a choice.

Globally visible: Active participation of Indian MIIs, such as NSE, NCL, CDSL, BSE, NSDL, ICCL, and intermediaries like ICICI, SHCIL, SBI-SG, BNP Paribas, Deutsche, and PIVOT in global bodies such as IOSCO, SIBOS, WFE, FIA, ISSA, Global Custodian, TSSAG, TNF, Cyprus International Summit, and FOW as panelists, committee members or attendees has added to the visibility of the attractive India story. The India story becomes more visible when India integrates more with the global fraternity. Much more can be done in this space, though RBI and IFSCA have engaged in global roadshows.

Investment in training: In the 2023 Budget, the Honourable Finance Minister of India announced an increased thrust on training through SEBI-certified courses. In my view, over 200,000 trained resources are needed to address the needs of the Indian capital market every year, beside addressing the re-skilling needs through training. At PIVOT we introduced training modules in Custody and Fund Accounting that became very popular. Training will add to greater ownership, effective productivity, and faster growth. The initiatives of NISM, NSE Academy and BSE Training Institute are commendable.

Cybersecurity: As the wealth of the nation increases, the continuous investment in cybersecurity measures by MIIs has been an important investment. Likewise, investments in the said space by the various stakeholders connected with the MII or otherwise (custodians, banks, brokerages, etc) is improving investor confidence. Regulators and MIIs have actively engaged with investors with regard to cybersecurity information dissemination.

Globally recognised conventions: Increasingly a large number of Asian and global conventions have dedicated India panels at their forums. This hardly existed in the past. An Annual India Convention alternating between Mumbai and GIFT City is a need. India offers an interesting diversity of topics from its own experience: T+1, digitisation, cybersecurity, UPI, and AIFs, to name a few. This will add to the diversity of knowledge, enable better interaction and visibility to say the least.

Trusteeship and fund administration: Trustees in India relatively carry more responsibility than what their counterparts do elsewhere. As the mutual fund segment is growing and delivering more products, it's time to introduce a global practice: **regulated fund administrator**. Trustees then can do what they are best at and the administrators do what they are known for.

SOPS and cost of doing business: Increased focus on standard operating procedures (SOPs) is merited. If SOPs are Industrialised with regard to certain operational aspects, then it leads to greater good. Purposes are well served when also considering the requirements and challenges of the 3000-odd FPI investors who may not necessarily come through global custodians or are not SWIFT-enabled. Similarly, the focus has to be on the cost of doing business. Both the Regulatory costs and non-regulatory are only going up, thereby diminishing the attractiveness of the products and market.

In essence, like any supermarket, now Investors have a significant opportunity to select securities products that fit and grow their aspirations. No longer it's unusual to have a taxi driver or a roadside tea vendor, a college student to be curious about MFs, SIPs etc. It's no longer the exclusive domain of a few.