Paper-less Capital Market

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Going paperless and enabling digital transactions is the new normal and with travel restrictions during pandemic, will ensure business continuity. Participants in the capital market such as banks, brokerages, stock exchanges, clearing houses and depositories have had a strong digital presence but the crisis has kick started a lateral shift from physical transactions to online transactions. The advantage of lower cost transactions, overcoming regional boundaries, process automation, data analytics and smooth operations with reduced processing time and increased operational efficiency are the main advantage. Today's consumers need on-the-go services, real-time offerings and in-depth analytics which have compelled capital market participants to embark on the paperless journey and add value through creative and tailored solutions to react to future demand.

The "Digital India," a campaign initiated by the Government of India, had laid the groundwork for ensuring that services are made available online, internet connectivity reaches the hinterland of the nation thus progressing towards a digitally empowered country. India had witnessed many financial reforms in the recent past, and the transactional aspect had seen a paradigm shift as the cash-based economy began moving towards the digital payment system. Over the past two years, digital signatures have also been on the rise. Documents that hold digital signatures are legitimate and lawful, offering enhanced protection and providing a higher sense of verification with relatively higher safety measures. Besides these, digitally approved documents can be accessed from anywhere at any time, reducing overhead charges resulting from the infrastructure of couriering and storage. The government had built the right ecosystem through e-Kyc, e-Sign, digital locker and unified payment interface (UPI). Creating applications and processes around these is now for the capital market to go absolutely online and do away from physical applications.

Recent changes introduced by the regulator (SEBI) allowed the use of eSign, Digilocker and electronic signature as permitted by the Government of India pursuant to the Information Technology Act, 2000 and its Rules. Enabling E-KYC and electronic signature will make it easier for investors to send their applications online / digital platform, App, via e-mail or electronic means for KYC purposes to the intermediaries. The dematerialization of financial instruments laid the foundation stone for the "paper less capital markets," we have seen regulatory reforms such as E-AGM and E-Voting in the past.

During the lockdown of Covid -19, most financial product manufacturers facilitated their distribution partners with online transaction facilities by scanning copies and allowed e-KYCs to ensure seamless investments and remove the requirement to meet investors. Using technology will make it easier for the investors to complete the KYC without the need to physically visit the intermediary's office. Covid-19 pandemic has changed our way of looking at the world, doing business and brought a paradigm shift to the investment process. "Each dark cloud has a silver lining," and online investment growth over the past three months signals towards a "Paper less Capital Market" route to the future.

The Indian capital market, backed by a robust regulatory framework, is at a maturity level. India with the cheapest internet connections in the world with active internet users above 504mn (as indicated by the Internet & Mobile Association of India (IAMAI) and Nielsen in a recent study) will form the backbone for the delivery of financial products and development of a paperless capital market. Geographical barriers were removed as internet transactions allowed the delivery of financial products and services to a wider consumer base.

Today, e-trading saves time, energy and money and provides any time market access from anywhere. 400mn plus tech-savvy millennial community which makes up a third of the Indian population and 46 per cent of the country's workforce has a high probability to move towards digital investment platforms.

According to Statistics, Indian Robo- advisors were managing assets worth $20 million in 2018 and the number is expected to shoot up to $116 million by 2022 with CAGR of 54.4 per cent (2018-2020). In the past, the customers have largely used the electronic mode for information-access and product awareness while for execution they preferred to talk with the relationship-managers and seek his help. However, in the current scenario as financial products have become homogenised in nature and access to research and analytics being available online, arrangements can be made to engage with salespeople virtually to structure complex products according to the specific need of the customer. This has laid down the road for seamless online execution which will become more efficient as processes evolve. It is expected that the enhanced security measures and the availability of robust online payment gateways will further build confidence and add to the mental peace of the investor. Current scenario indicates customer's behaviour is undergoing major change as online mode of execution is on a rise through apps and portals allowing a high degree of client customization and also virtual systems like chat-bots provide further support.

The financial intermediaries need to work on technologies that should be stable and have safer infrastructure to conduct seamless transactions across online or mobile gateways. With intermediaries adapting to the new trend, operational risks may increase as paper less transactions become the new standard. Financial intermediaries will have to make significant effort to move non-tech savvy investors to the new system. Although there will be plenty of obstacles, the new trend of e-investments has already begun to evolve and either wealth firms or financial intermediaries have to adapt or perish in the long run.

According to the Committee on Global Financial System (CGFS) report the drivers for the capital market in India are easy access to high-quality material information, diversity in the investor base, efficient market ecosystem for trading and robust market infrastructures, and openness towards international investors. In the current scenario the above mentioned drivers are supported with a robust regulatory framework in India overlooked by institutions like SEBI, RBI, IRDA and supporting acts like RERA , IBC, FEMA etc. Tech-savvy, millennial and the demographic advantage, supporting government policies on technology and innovation, and India's position as the fastest-growing emerging economy would fuel further capital market growth. A matured and efficient financial system supports the present Indian economy scenario well. With the advent of technology and capital market deregulation, there is enormous scope for bringing innovative financial products into the Indian capital market and delivering them seamlessly online.

Perhaps the current COVID-19 crisis is a blessing in disguise for the system and has helped in making this natural progression towards a more efficient and paperless environment a reality.