# Growth of the Indian Capital Markets: Enlarging the Role of Depositories

**Nehal Vora**
*Managing Director & CEO*
Central Depository Services (India) Ltd.

The COVID pandemic created an unprecedented impact across the globe as economies implemented lockdowns and economic growth became muted.

The IMF April 2021 World Economic Outlook forecasts that India will grow by 12.5 percent in 2021 and 6.9 percent in 2022 — the highest among large economies. The Asian Development Bank April 2021 Outlook forecasts India's growth rates at 10.0 percent in 2021 and 7.5 percent in 2022, again the highest among large economies.

In India, although the Stock Exchanges have been in existence for over 100 years, their role acquired significance in mobilisation of savings and channelisation into productive investment, only in the 70s and the 80s, though the market was subject to Government control and regulations. In the 90s, the capital markets, however, have emerged as an important source of capital mobilisation and witnessed considerable growth, following comprehensive set of reforms introduced in this area as a part of financial sector reforms.

The extent of growth in capital markets in India can be measured by the fact that as against an amount of about $ 6 billion equivalent mobilized during the 10-year period up to 1990-91, the amount mobilised during six years between 1991-92 to 1997-98 increased over eleven-fold to around $ 68 billion. In 2010 the pre-reform period, 75% of incremental financial savings went to banks and approx. 25% to the capital markets. In 2016 the banking sector received 47% of the household savings and the equity market 53%. (*Source: International Journal of Multidisciplinary Educational research*)

In 2021, we saw the Indian equity market capitalization crossing a $3 trillion mark. The average daily turnover increased by 70% in the fiscal 2020-21 as compared to the previous year.

India has also been seeing a retail investor interest when it comes to the stock market ever since the first lockdown was imposed in the wake of the coronavirus pandemic. The 15 months from April-20 to June-21 saw an increase of 2.14 crore investor accounts.

All these statistics indicate an increasing penetration and also the rise of digital services to access the capital markets. It also signifies a shift in investment strategies as more Indians and especially millennial Indians now seem to see the stock markets as an alternative or an add-on to conservative options like real estate, gold or bank deposits.

For every crisis gives birth to new opportunities. Companies are accelerating towards digital innovations and footprints rapidly.

So, what makes the whole process of opening and operating a demat account - so easy, convenient and at the same time secured? The answer is simple, the everyday evolving and innovating technology and tools of financial services in the eco-system. The regulator, SEBI and the Market Infrastructure Institutions (MIIs) – Exchanges, Depositories, Clearing Corporations play a very substantial role in the growth of the technology. The online services offered by the MIIs are not limited to providing access and operations but also led to greater awareness and eventually leading to an increased participation in the Capital Markets.

Smooth interfaces, easy to download and use apps and affordability of smart devices have also added to the boom in retail participation in the stock markets. Also, convenient and electronic know-your-customer (e-KYC) services as prescribed by Securities and Exchange Board of India (SEBI) and the Market Infrastructure Institutions (MIIs)) introduced by the intermediaries have led to better access to financial services online.

In light of the same, depositories that have been working towards strengthening its digital footprint and providing various digital solutions for the investor. Aligning, with the promotion of the Digital initiatives of the Government the new age investor intends to avoid the hassles of dealing with the back-office of the intermediaries. The online services are a demonstration of the future of operations i.e, DIY (Do-it-yourself) investments and management of one's investments independently. This has led to shifting power from intermediaries to investors and making them self-resilient and self-sufficient.

It has become the need of the hour, especially in the current times, that an Individual – who wants to be an investor - should be able to open, access, operate and monitor his demat account without stepping out of her/his house. With the introduction of online facilities and depository driven mobile based applications to view, monitor and transact investments, operating demat accounts from the comfort of one's home has become possible. The availability of online learning resources has aided in more investors opting for the online mode.

Further, services such as e-delivery instructions providing ease of business to both the investor and the depository participants. The new SEBI prescribed margin pledge system brings in transparency and visibility to the investor on the stocks which are pledged from the investor account. To further the cause of investor empowerment through the DIY framework, Depositories also offer e-voting services to enable investors to cast their vote and further strengthen the foundation of corporate democracy even during the current restrictions of social distancing on account of the pandemic. SMS alert facility also provide for security in the new normal, wherein the registered investors will receive alerts for all types of debits and for credits due to IPO allotments and corporate actions.

Under the vision of SEBI, the Indian capital markets is expected to continue its trajectory of sophistication and investor transparency through the process of digitisation Thus, one of the most important aspects for the growth of the capital markets and the growth of spectrum of depositories will be e-governance. The story of growth is incomplete without the presence of governance. The regulator puts great emphasis on data protectionism and treating data as a form of wealth. If we link the digitalization to ease of doing business and innovation indices, the trends support the assumption about the positive potential of digital India for India's transformation.

The strong fundamentals of an economy are based on the virtues of good governance and ethical practices. In line with the growing markets and expansion of monitoring tools, the requirement of governance through technology will widen, enforcing MIIs to enhance their toolkits to keep pace with the rapidly changing paradigm of markets.

Two distinct themes that will gain traction are mitigation of risk and enhancing supervision through a sophisticated toolkit of machine learning and artificial intelligence leading to a new phase of digital transformation and the future of depositories will be embarked with e-governance with the focus on core values of integrity objectivity and transparency.

In conclusion, the times are changing, markets are growing and it has led to the necessary boost to the capital markets and introduce innovative financial products that focus on ease of business and security, while ensuring the best interests of the investors in mind.