

# The power of dematerialisation



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Today, I want to share with you a story of change, resilience, and hope. It's a story about India's capital markets and how they've evolved over the years. This journey isn't about numbers or technological jargons; it's a tale of real aspirations, and the future we're building together.

## Unleashing India's Potential

Back in the early 1990s, India's capital markets were like a tightly locked vault. But India was and continues to be a land of opportunity, and with

the dawn of market-oriented reforms, we decided to unlock the door. We opened up our economy to foreign investments and allowed more private participation in key sectors. Today, when you look at the Stock Exchanges, you're witnessing something truly incredible. These two giants have become some of the world's largest and fastest-growing exchanges. Our market capitalization has shot up to over \$3 trillion, a staggering leap from just about \$225 billion two decades ago. But how did we get here?

In this ever-evolving landscape of Indian Capital markets, one concept has played a pivotal role in reshaping the way we trade and invest - dematerialization. This transformation, rooted in **simplicity and efficiency**, has not only streamlined processes but also **empowered investors**.

## A Glimpse into the Past

To appreciate the significance of dematerialization, let's rewind a bit. Before 1991, all investments and security purchases were paper-based, with share certificates as tangible pieces of proof. Misplaced certificates often meant they were lost forever, creating a breeding ground for failed trades, fraudulent activities, and inefficiencies.

Depositories emerged as the solution. They aimed to digitize the entire process, replacing physical certificates with electronic entries in demat accounts. This seemingly simple shift was a game-changer. It eliminated the risk of lost or tampered certificates and transformed the market.

The introduction of dematerialization marked a pivotal moment in India's equity markets. Suddenly, investors didn't have to worry about the safety of their physical certificates. Their holdings were secure in digital form, effortlessly transferable through electronic records.

## The present

To put it in perspective, let's look at some numbers. Two decades ago, there were just a few lakh demat accounts. A decade ago, it was a mere crore. Today, India proudly holds **more than 12 crores of demat accounts**. The growth rate is phenomenal, driven by technological

advancements made possible by dematerialization.

One of the most significant advantages was the dramatic reduction in settlement times. Before dematerialization, it took five days for a trade to settle (T+5). This long cycle discouraged potential investors and hindered market liquidity. But with demat accounts, trades settled almost instantly (T+1), giving investors quicker access to their funds and opportunities.

On January 27, 2023, India made history by transitioning to T+1 settlement. Trades are now settled almost in real-time, making our markets more attractive to investors and fueling economic growth. Cutting-edge technologies like cloud computing, blockchain, artificial intelligence, and machine learning have further improved transparency, accessibility, and data accuracy. Online trading platforms offer low brokerage fees and user-friendly interfaces, making it easier for people to invest and monitor market prices.

## The Future Beckons

As Steve Jobs once said, "Simplicity is the ultimate sophistication." In line with the same objective to simplify the Indian Capital Markets, we're entering an era where dematerialization isn't limited to equities. It's expanding to different asset classes.

In recent developments in June 2023 SEBI had announced mandatory dematerialization of Alternative Investment Funds (AIF) units. The dematerialization process will ensure that each unit has a secure and transparent digital identity, making it easier for investors to trade and invest in AIFs.

Further, the demat allows easy regulatory access to information from depositories and comfort to investors of AIF that the securities of the AIFs (in which they have invested) are held safely.

## Addressing challenges

While technology drives capital markets, it also brings challenges such as cyber threats, data protection, technological glitches, and unethical behavior like insider trading. The use of algorithms and automation raises concerns about market stability and human decision-making.

Indian stock exchanges and regulators are proactively addressing these issues and educating investors. SEBI guidelines mandate strong access controls, encryption, and vulnerability assessments for market participants to ensure cybersecurity. Big data analytics and machine learning enable regulators to monitor and detect potential market abuses more accurately and quickly. RegTech (Regulatory Technology) solutions automate identity verification, risk assessment, and fraud detection to help institutions comply with KYC and AML (Anti-Money Laundering) regulations. Keeping up with cybersecurity best practices remains crucial for regulators and market participants as the threat landscape evolves.

## Conclusion

This shift from a manual paperwork process to a dematerialised system not only streamlined equity

market participation but also minimized complexities, and maximized accessibility. It is perhaps one of the foremost reasons for rising activity in capital markets, translating into India's rapid economic growth.

As depositories continue to evolve, the integration of technological advancements and investor-centric initiatives persists in refining the securities depository framework, ensuring a secure, efficient, and investor-centric marketplace.

In celebrating the power of dematerialization, we celebrate a future where investing knows no barriers. It's a future where everyone, regardless of background or location, can participate in India's financial markets with

ease and confidence. Depositories may be the unsung heroes, but their contribution is undeniably powerful and transformative. In acknowledging these unsung heroes, we embrace the democratization of India's financial markets and empower every investor.

In all of this, Capital Market Technology/Institutions, or 'Cap-Tech companions,' play a crucial role. We make it easy for you to navigate the evolving demands of the growing markets. With 12 crores of demat accounts, T+1 settlements, and cutting-edge technology, we've achieved milestones, but this is just the beginning!

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