Rising above the surface

Maddie Saghir reports

India's financial services market is continuing to grow from strength to strength, with some experts arguing the country should now shed its tag as an 'emerging market' because of its success

It's one of the most important markets for asset managers and consequently for asset service providers too. India made a name for itself in Asia's market since its National Stock Exchange began operations in 1994. But the regulation requirements in India are often described as "cumbersome" and "ever changing".

With the emergence of boutique investment managers in India, servicing requirements are getting customised accordingly. Effectively, fund accounting and regulatory reporting are being bundled with custody services.

Most custodians are currently working towards Securities and Exchange Board of India (SEBI) reporting along with holding securities and accounting.

SANNE's India head of business development Khushboo Chopra says that the ever-changing regulatory framework can lead to change in underlying systems and platforms.

Chopra comments: "A good example being the latest change in margin requirements for cash equity trades/introduction of physical settlement in the derivatives segment and intraday monitoring of limits by clearing members for derivative trades, which is being introduced from 1 January 2021."

Amid regulatory challenges, technology is beginning to take centre stage in order to achieve operational efficiency and maintain customer engagement. Technologies like artificial intelligence (AI) have the ability to remove manual tasks and enhance the regulatory reporting process and this is particularly making waves here. In addition, asset servicing companies are moving from straight-through processing (STP) to no-touch processing (NTP) in India.

More positive news for India is the flourish of growth in the alternatives industry which is demonstrating an increase in money and pension funds.

There is also a sharp shift in asset allocation to India as well, which comes as the people of India pay less attention to traditional avenues such as gold, and more towards financial assets.

India can also proudly boast of having an extremely successful futures and options market (F&O). Last year, India's National Stock Exchange traded approximately 6 billion derivative contracts, which represented a 58 percent year-on-year growth — the most in the world.

Anuj Rathi, head of securities services, India, HSBC, explains: "The exchange has been a pioneer in using technology to bring exchange products within greater reach of retail investors along with institutional investors. A steady supply of new products and a robust risk management framework have further supported the growth."

The momentum of this success is expected to continue with product innovation, reducing the cost of transactions and encouraging a wider participation from domestic investors.

"This trend and appetite will continue with the bulls seemingly using any decline as a buying opportunity," predicts SmartStream's senior vice president of Europe, the Middle East and Africa (EMEA) Pritesh Kotecha.

Opportunities ahead

Amid success in India's capital markets, experts suggest there will be a corresponding growth in demand for the asset servicing industry as well.

Opportunities include traditional asset classes serviced via the usual brick-and-mortar asset servicing model catering to both foreign and domestic investors; newer products and areas such as GIFT-City, commodities etc; and the burgeoning outsourcing industry, which has already seen several large asset service providers set up shop to handle their global back-office operations.

While these opportunities will require innovation and technology, HSBC's Rathi says there is a need to "simplify and broaden" the regulatory scope for what can be outsourced by investors to further allow asset service providers to put forth unique solutions.

"The focus also needs to shift from pure back office, as currently is the case, to the inclusion of mid-office activities that will provide further impetus for the asset servicing industry to grow. Such regulatory changes will create a paradigm shift, allowing the asset servicing industry to capture the opportunities through full use of data and technology-backed solutions," says Rathi.

Further opportunities here include servicing family offices and continuing the focus on offshoring asset servicing work to India.

On the technological side of things, keeping costs down will be key when using technology to unlock opportunities, specifically when it comes to data opportunities.

Now more than ever, people are seeing the art of creating, capturing and utilising data as a top priority as it can open up all kinds of revenue opportunities and empower decision making.

Rathi affirms: "Disruption through data and technology is very real and very visible in the current times, with asset servicing participants and the regulators continuously looking to use technology to enhance the customer experience."

For example, in its quest to digitise, SEBI has introduced a common application form (CAF), an online platform to simplify the registration process for foreign investors.

Elsewhere, technology such as robotic process automation (RPA) is showing the potential to deploy data and technology solutions to further improve ways of working, and it is just at the tip of the iceberg.

"As assets under administration and assets under custody (AUA/AUC) volumes grow, the winners will be those that have deep partnerships with fintech firms who already provide rich and deep AI capabilities in order to drive both efficiencies and revenue opportunities. AI is not the answer to everything," says SmartStream's Kotecha.

However, he warns AI is not the answer to everything. Instead, he stipulates that "focus has to be myopic to address specific and persistent problem areas rather than the traditional 'mile wide' approach".

According to Koteca, they are already seeing results from both international and domestic players who have engaged with companies who have already embedded AI to remove manual tasks within reconciliation and trade breaks, trade processing, and reporting for regulators and clients.

Offering further potential opportunities in India is the Vajra Platform, a distributed ledger technology (DLT) system for automated payment, clearing and settlement, which the National Payments Corporation of India (NPCI) is set to introduce.

Distributed ledger has the ability to give control of all its information and transactions to the users and can promote transparency. Back in January, NCPI highlighted that a permissioned network will be set up so that only the parties who have been approved by the Network Administrator can be a part of the network.

"This platform will be beneficial for payment companies to make their process seamless also in addition DLT will help in making it easier to track and resolve payments. In addition to securing payments, this blockchain-based technology will also help the Unique Identification Authority of India (UIDAI) in facilitating Aadhaar authentication," comments SANNE's Chopra.

Meanwhile, RBI has also shown interest in developing India's own digital currency in India and is thinking about developing a sovereign digital currency in the country and will be releasing it appropriately.

Chopra highlights: "This is a truly world leading initiative and could help India leapfrog ahead in the DLT space."

An established market

So while much of the asset servicing space in India has experienced growth, can it still be said that India is an emerging market? According to experts, India is the fifth-largest economy in nominal terms and the third largest in purchasing power parity terms. It also remains one of the fastest-growing major economies.

"If Plato's claim that 'Necessity is the mother of Innovation' is to be embraced, then the next few years should represent a perfect storm for India's asset servicing space," says Kotecha.

Rising AUA/AUC coupled with the promise of AI technology to reduce costs by 30 to 40 percent, driven by India's mature and bullish investors, points to opportunity and growth.

A key challenge is to ensure domestic asset servicing players capture their fair share of this opportunity and do not allow the international giants to take all of the Rabri

But choppy waters and the current climate with challenges around COVID-19 have rocked the boat slightly and could potentially capsize this going forward.

"A key challenge is to ensure domestic asset servicing players capture their fair share of this opportunity and do not allow the international giants to take all of the Rabri."

India also recently encountered a setback on GDP numbers, but HSBC's Rathi highlights India is expected to bounce back strongly as the fundamentals remain strong fuelling a percent plus growth rate post pandemic.

Rather a double-edged sword, the pandemic can also be seen as an opportunity for India to undertake major reforms that could help benefit the market even further. While India's F&O market, for example, is developed, corporate debt markets could be improved to achieve an established status. Labour and land reforms as well as improvements to the privatisation and divestment programme could also help further strengthen the momentum.

"The best way to keep the momentum going is for the policy-makers to create an environment for wider investor participation such as retail, domestic and cross-border institutional. A broader market is not only deep but it also helps steer it towards efficiency and innovation that will be the key in times to come. Indian markets will surely benefit by inclusion/ increased weightage in global equity and bond indices and there should be a concerted effort towards the same."

"As a conclusion, it is probably time for India to shed the tag of an emerging market," concludes Rathi.