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India's Pivotal Single Country Custodians

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A few weeks ago, Roger Harrold published an interesting and enriching article on, "Sub- Custody- Visibility over the Business Case" on linkedin. It was well researched and provided valuable insights. The article also covered challenges faced by Local Bank or Niche Bank who do not have Custody as their core competency.

Cut over to India; over $1 Trillion of Assets are owned by Institutional Investors. India's Single Country Custodians(SCC) custodise/service, a significant of over USD 500 Billion of the said equity assets- servicing multi product (Equity, derivatives, Debt, Currency, Commodities, DR, Escrows, Fund Accounting, R&T etc) across client segments (MFs, PE, Corporates, FDI, FPI, Insurance, Pension, AIFs etc). A unique feature of India SCCs is that their business is mostly self-developed and not driven by business from Global Custodians. The eleven India SCCs (Stockholding, Edelweiss, ICICI, HDFC, Axis, ISSL, Kotak SBI- Socgen, Orbis and others) outnumber multi Country Custodians (Citibank, HSBC, Deutsche, JPM, DBS, Standard Chartered etc) by 11:7.

Post FPI (Foreign Portfolio Investments) Regulations of 2014, the multiple forward-looking initiatives by the Government and SEBI, led to increased inflows into Indian Capital Markets. As the Indian Economy marches from the current $ 2.3 Trillion (approx $ 225 Billion in 1990) to $ 5 Trillion by 2025, diversity of increased flows, new Category III FPIs (accounting for over 18% of total number of FPIs), increased FDIs, is driving India interest.

India's SCCs are playing a larger, more active role in the expanded Capital market. Category III FPIs primarily are Single Country (read in this case- India dedicated) FPIs. It's well acknowledged that Category III investors are more in number and lower in assets/volumes. The percentage of India Centric Category III investors will grow significantly as India's Capital market grows. This notwithstanding the fact that entry norms are stricter and complex; compliances are more; their investment pattern being different; needs being different and more importantly- they have limited access to knowledge of the market- needing confidence building measures. India's SCC have played a pivotal role in supporting the inflows from this segment by undertaking multiple initiatives, especially in the last 3 years.

India's SCCs while playing a pivotal role, especially since 2014 (post introduction of the FPI Regulations) have supported the ease of doing business, especially wrt Category II, III investors. The said SCCs have invested in Product development, Resources, Technology, Risk Management, Compliance, implement global standards and best practices, offer competitive solutions, engage in global marketing and are increasing rated higher in the highly acknowledged Global Custodian Survey. *In effect, SCCs have re-invented and are doing more, to increase Investors Ease of doing business in India.*

This in spite of the multiple challenges that dogs the development of SCCs. Challenges include educating and explaining to a new class of investor (especially Category III); challenges for a few non-bank Custodians; the ever-evolving documentation (onboarding/KYC) processes (relatively stringent, time/resource consuming); continuous investment in resources, Technology, compliance etc. Sudden policy/ procedure changes, competition from competitive overseas jurisdiction leads to slowing/fragmenting inflows- impacting SCCs too!!

- Is there a case for India's SCCs to be heard more and be actively engaged by Regulators, Industry, Policy makers on making India more attractive, enable greater ease of doing business at affordable costs?
- Can the SCCs offer cutting edge solutions at cost effective pricing to India centric Investors?
- Do the challenges make the task of the SCCs harder- to attract inflows as well as be competitive?
- Are SCC's capable and effective in a larger role- propagating the Single Country(India) story?
- Have SCC s evolved to add value/ contribute best practices that enable inflows? Can they do more?

Yes. Our experience at PIVOT has been that most of the eleven SCCs are making a positive difference. They need to be engaged more in the development of India's capital Markets as beside accounting for over 50% of the total AUC they handhold India Centric Investors investing in India's growth story. They have showcased strong local market expertise, ability to understand the demands/ requirements of Investors (Local, Inflow, Outflow), created confidence while actively positioning India. India's SCCs represent the ethos, "**Make in India**", they contribute significantly to the growth of employment and Capital resources of India. They are here to stay.

Herein lies the role, responsibilities, significance and aspirations of SCCs, be it in India or for any jurisdiction.

The article forms part of PIVOT Management Consulting's thought leadership notes on ease of doing business in Indian Capital Markets. ***Contributions****: India- Gods own country for FPIs? - Vanishing Mysticism, Enabling Ease; Collateral Challenges and other pressing topics in European Markets; Attracting FPI Investors: Fixing Perceptions, Driving Solutions; Custodian Bank-India adopting Global Trends.*

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