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Winds of Change

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Since 1875 Indian stockbroking community played a stellar role on developing India’s capital markets and in wealth creation-contributing to India’s growing footprints- locally and internationally. With every change whether Independence, multiple products, advent of online trading, computerisation, multi-location trading, advent of FPIs, derivatives and commodities trading to the latest - Interoperability- the community hardly flinched, accepted the change, ‘led/adapted’ and grew, just like India did over hundreds of years - adding diversity while it changed. This article is not an ode to the stockbroking community- it recognises what many know. Its about opportunities that will abound, for the community to grow and play a bigger role.

India’s current market cap(listed) is approx. \$USD 2.2 Trillion(give or take a few hundred billion!) up from a few hundred billion in 1990s. PM Modi’s vision of India being a \$ 5 Trillion economy over the next decade is the new bar! The broking community will have to choose between ‘adapt’ or lead. Will they lead?

In my view over the last decade the broking community ‘adapted’ more than they led, very contrary to the role they played hitherto.

The fast-changing capital market environment induced numerous positive changes thanks to SEBI, Exchanges and related institutions. While margins shrunk, volumes quadrupled, governance developed and much more. Clients segments too expanded! The future is about AI, innovation in products, client centricity, excellence in delivery, targeting new segments, leveraging strengths to name a few.

Increasingly the Indian Government and Regulators took steps to encourage FPIs and NRIs. Yes sometimes, in short term some of the policies are one step back, before the quintessential corrective two steps forward. Neither the Government nor policy makers or SROs can be expected to drive business- its not their mandate.

Infrastructure SROs like BSE, ICCL, CDSL have invested in world-class technologies to make execution and settlement a breeze, for the BSE brokers. The Regulators and SROs in India have done a pretty neat job in growing the market while containing risks and ensuring compliance. The BSE handbook for FPI’s (a guided initiative of Shri Ashish Chauhan, CEO and MD of BSE group) is widely popular in the FPI community. The BBF (BSE Broker’s Forum) has championed the broker community’s cause! In recent times BBF has taken baby steps in representing Indian capital markets, overseas. Yes baby steps.

For PM Modi’s vision to ring true, the Broking community will need to shift gear - to lead more than ‘adapt’.

Let’s take the case of FPI (Foreign Portfolio Investor). FPIs account for USD 443 Billion of the over USD 1 Trillion of assets(not including their interest in Debt and derivatives segment). Since 2015 a new class of FPIs (Category III-to be merged with Cat II, as per SEBI announcement of August 2019) have been investing in India. The numbers have been swelling to form almost 15% of the total number of FPIs. It has emerged as the fastest growing segment of the three segments(see table).

Recent initiatives of BBF in Japan and Korea supplements what the Custodians(including India’s Single Country Custodians)have recognised and been engaged in since June 2015! These investor countries besides US(see table) have increased inflow into India. In my view the current numbers though growing, are a fraction of what will be, in years to come. For the purpose of this note I’m concentrating on FPI Cat III, which is the lowest hanging fruit from the Broking community perspective.

Table

Countries	No. of FPIs (as on 07-08-2019)			AUC (USD Bn.) as on June 201			
	Cat. I	Cat. II	Cat. III**	Equity	Debt	Hybrid	Total
USA	13	2776	426	149	8	0.26	157
UK	3	469	33	21	0.42	0.09	22
Canada	24	564	42	14	2	0.08	16
Singapore	36	217	128	29	15	0.56	44
Sub-Total	76	4026	629	213	25	0.99	239
HK*	1	96	15	-	-	-	-
Gulf*							
Dubai/ UAE	39	6	41	-	-	-	-
Bahrain	1	2	1	-	-	-	-
Total in India	268	7883	1239	414	58	1.36	

Source: NSDL

* Not in top 10 ** Will be merged with Category II as announced by SEBI in August 2019

Cat III (Will be merged with Category II as announced by SEBI in August 2019) segment has seen active participation of Indian Banks, Indian Tax firms, Indian Custodians. Limited is the presence of a larger number of Indian Broking community in this space. This stems mostly on account of lack of knowledge of the requirements and/or terms of engagement with investors or intermediaries based in these countries.

This is where a collaborative effort by BBF and the Broking community can come handy to offer a world class execution and service delivery mechanism at a pricing that while adding a new revenue stream for the broking community also enable many more investors to invest in India. At PIVOT our study indicates that roughly there are over 50 lines of costs that an FPI incurs when investing in India. Costs become a significant aspect of investment decisions especially in the case of Cat III (Will be merged with Category II as announced by SEBI in August 2019) Investors. Besides lower costs, such investors have a number of expectancies.

Our experience indicates that most of the Broking houses with over 30 years of presence (including retail) have adequate skills

and Technology to handle FPI business. However, they(including BBF) need to invest into a few aspects. Key areas of investment being:

- Self-belief on their ability to service the segment and positioning the same
- Research the requirements of the segment and draw up a list that can be commonly presented by BBF and the specifics by the broking house
- Actively engage in collaborative efforts with not only BBF but also overseas bodies of similar institutions
- Establish common standards
- Marketing of their capabilities through websites (BBF/Broking), marketing collaterals, overseas reach focusing specifically on segments concerns, requirements
- Establish Technology solutions like DMA and integrated Technology driven solution- from order stage to contracting
- Establish collaborative service standards that increase confidence through documentations, TATs, support time
- Identify client segment and their specific needs. This vary from jurisdiction to jurisdiction
- Re-org business dealing room with firm Chinese walls between the retail and the FPI (similar to institutional) business
- Develop relationships with diverse stakeholders(custodians, Tax firms, banks), understand their requirements- collaborate
- Tap collaborative efforts of SROs, other intermediaries and more importantly the Organisations in investor jurisdiction

Our experience has been that many a Indian broking house have the ability to deliver on the above but have been ‘reluctant’ to explore this fast-growing space. To an extent their stance is understandable. The key dissuading factor being the risk-reward perceptions culminating to them sticking to the safe zone of current domestic client segments- of thinning margins, intense competition etc. Given our international experience and presence, we feel BBF and the broking community needs to shrug the ‘perception’, draw a collaborative solution and develop in this space, as have Indian banks, custodians, tax firms done. The community could consider taking assistance of experts in this space(including in the home countries of the investors) as have been done by the other intermediaries in India.

The current 1239 Cat III FPIs (over the last 4.5 years) are being serviced by a mix of Indian and multi-country broking houses. This number will grow significantly as India aspires to grow to the \$5 trillion size. In my view the broking community and BBF will have to shift gears- to lead than adapt.

The winds of change are here and will stay. Will the broking community showcase its leadership ability or play, ‘waiting for Godot’? I believe in the broking community’s ability of the former. It is the need of the hour, together with BBF.

Viraj Kulkarni values the stint at BSE in the early part of his career. He subsequently served as Operations head at Morgan Stanley broking Operations and for over a decade as country manager(Custody) at Citibank (India and Switzerland), JP Morgan Chase and BNP Paribas. In 2015 he set up PIVOT (India, Cyprus) which advises Exchanges, Custodians, FPIs, Broking firms, PE’s etc. In May 2019, he was recognised by Global Custodian as amongst the 30 Global leaders in the \$100 Trillion Custody Industry.