

MCX'SX

India's New Stock Exchange



Role of Stock Exchanges in Penetration of Financial Services

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Role of Stock Exchanges

- Capital formation
- Wealth distribution
- Financial inclusion and financial literacy
- Low cost distribution network
- Product innovation and global alignment
- Develop investors and strengthen brokers
- Pro-market policy advocacy for reforms
- Building an efficient financial eco-system
- Enhance credibility of market through better enforcement, regulation and transparency

“Wealth creation will encourage wealth distribution”

Indian Market

							(in \$Bn)
Year	Primary Market (All Issues)	Secondary Market (Avg. Daily TO)	Market Cap	Sensex (Close)	AUM	Demand & Time Liabilities of Banks	FII (Net)
2005-06	6.2	2.1	683	11,280	52	522	9.3
2006-07	7.4	2.6	784	13,072	72	624	6.8
2007-08	21.6	5.1	1,277	15,644	126	855	16.4
2008-09	3.2	3.4	663	9,709	90	879	-9.8
2009-10 (Apr-Oct)	3.7	5.1	1,118	15,896	161	923	17.8

Macro Economic Factors

Parameter	United States	China	India
GDP (\$ Bn) (2007)	13,800	3206	1200
Population (in Bn) (2009)	0.3	1.3	1.2
Market Cap. (\$ Bn) (Dec., 2008)	9,200 (NYSE)	1400 (SSE)	650 (BSE)
Household savings rate (2007)	0.6%	24.0%	28.0%
No. of tax payers (in Mn) (2007)	134	NA	31.5
No. of mobile phones (in Mn) (2009)	260 (2008)	650	400
No. of internet users (in Mn.) (2008)	220	253	70
No. of Registered AMCs	700	NA	44
No. of ETFs	>700	NA	16
No. of Open Ended Schemes	>8500	NA	>550

Gaps in Capital Markets

- Household financial assets in the form of shares declined to about 10% from about 15% in early 1990s. In Korea it is more than 25%
- Less than 1% of the population participates in capital markets; in developed markets this ranges from 30% to 50%
- Nearly 90% of trading is concentrated in top 100 scrips out of over 6000 listed companies (2008-09)
- Around 66% in F&O volume are associated with a single index (2008-09)
- 25 brokers have about 45% of market share (2008-09)
- 90% retail investors located in about 25 cities
- There is no market for corporate bonds, interest rate derivatives and SME's.

Indian Market: Where Are We

Parameter	Present	Future
Trading & Technology	Electronic	Algo trading & DMA, Mobile
Market Penetration	Semi-Urban	Urban → Semi-Urban → Block Level (Through Banking, mobile and first generation brokers)
Instruments	Equity F & O; Debt; ETF; FX – USDINR	Cross Currencies; IR (bond indices) & Credit derivatives; Strategy products; indices & Islamic products, etc.
Focus areas	FX;	SME; IR derivatives; Corporate Bond; OTC Clearing; new asset classes – Events, property, climate, hybrids, etc.
Risk Management	Pre margining	Real-time
Trading Cost	0.05%	0.01% and lower
Global Market Access	Nil	-Inbound and outbound investment -Global products in India -IDR for raising fund from India -Indian investors investing outside India

India's Underdeveloped Bond Market

Notional Value of lots traded in USD Billion (2008)

	United States		India	
	(in bn \$)	(in %)	(in \$ bn)	(in %)
Stock	5,407	0.5%	1,052	28.5%
Stock Indices	86,975	7.3%	1,616	43.7%
Currency	21,388	1.8%	20	0.5%
Commodities	36,000	3.0%	1,007	27.3%
Interest rate	1,038,781	87.4%	NA	NA
Total	1,188,552	100%	3,695	100%

Building Next Generation Financial Market

How deep can markets can be:

Mobile as a tool for penetration

- The penetration of mobile is more than internet in India with over 400 million subscribers; 260 Million ('08) in the U.S. and 650 Million in China

Banks as a tool for penetration

- Banks having more than 400 million account holders, 80500 branches and in the process of 100 % financial inclusion drive
- The branch network of banks is well distributed to cater to a large segment of population, with 40% branches in rural, 24% Semi-urban, 19% urban and 17% metropolitan regions.
- India has a density of 33 ATMs per million population as against 98, 419 and 16,000 ATMs per million in China, Singapore and South Korea.

Internet as a tool for penetration

- There are about 70-80 million internet users, which is 7% of the population compared to 25% and 75% in China and US.

Strength of Indian Industry: Competition & Growth

Mutual Funds	Banks	Capital Market
No. of AMCs: 44	No. of Commercial Banks: 170	No. of National Stock Exchanges: 2
No. of branches: 2500 & No. of Agents: 64,000	No. of branches: 80,500	No. of brokers: 2100 & No. of trading terminals: 200,000
AUM: \$165 Bln (Dec '09)	SCBs Agg. Deposits: \$875 Bln (Dec '09)	Market Cap: \$1120 Bln (Dec '09)
Users: ~47 Mln.	~600 Mln	Direct Investors: ~15 Mln

Life Insurance Business

Number: 11 (Yr.2001) → **22 (Yr.2009)**
Offices: 2200 → 11800
Agents: 0.1 Mln → ~ 3 Mln
Sum Assured: \$160 Bln → \$600 Bln

Telecom Sector

No. of service providers: **13 (2002) → 14 (2009)**
No. of Subscribers: 36 mln (2001) → 500 mln (2009)

- 100 million investors in 2015
- Sensitize 0.1% of the 15 million SMEs to raise different type of resources from exchange ecosystem
- Take market from 1500 cities currently to 5000 cities in 2015
- Create globally acceptable products for Indian investors
- Make compliance by companies completely electronic
- Expand market terminals from 200,000 currently to 1 million
- Introduce market access through mobile phones
- Create employment opportunity in Capital market services for over 1 million youth through exchange services ecosystem
- Post convertibility make India the centre stage of Asia.



THANK YOU