Indian Capital Market: Agenda for Change

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What ails Indian capital Market

• High degree of concentration
  • Declining Number of investors (in fact the number of investors declined from 2 crores in 1992 to only 80 lakh in 2009*, which is less than 0.65% of population
  • Number of Broking firms
  • Number of companies
  • Number of Stock Exchanges (Single exchange accounts for 75% and 99% of trading volume on cash and F&O segment of equity market)

• High Volatility

• Low Integration
  ▪ With International Markets
  ▪ With other financial market like banking, insurance, etc.
  ▪ With Economic Developments (Infrastructure Growth)

* D Swarup Committee Report, 2009
High degree of concentration

- No of investors (During April-June 2010, almost 50% of trading volumes came from 451 investors in NSE’s Cash market and only from 106 investors in its Derivatives segment, which is 7 times that of cash market). Only 3% of clients account for 90% of NSE’s equity derivatives trading.

- Number of Broking firms (25 broking firms account for more than 40% of cash and future segments of equity trading)

- Number of companies
  - Top 10 companies accounted for 24% of NSE’s cash equity and 38% of derivative market turnover

- Number of Stock Exchanges
  - NSE has 96% market share and BSE is becoming irrelevant

Source: Answer to Unstarred question 1669 in the Parliament
Agenda for Change: The Prescription

- Capacity building
- Need for market development
- Integration
- Impart Financial stability
Capacity building

- Balanced growth through alternative asset platforms like SME Exchange, Debt Exchange,
- Invest in market surveillance and enforcement
- Strengthen mutual funds market
- Develop suitable regulation for the emerging environment. (Lead not Lag)
- Increase availability of Information
- Improve corporate governance (who will set regulation, Stock Exchange or SEBI?... (in)dependent directors)
Market Development

- Broadening market participation
- (97% of average Indian’s saving goes into risk free assets like currency, deposits in banks, life insurance and provident/pension funds (Economic Times, 12 Sep. 2010)
  - Education and Effective protection (Government should build a single and large Investor education Protection fund) which is meant for this purpose and under the supervision of SEBI
  - Rich product basket
  - Risk Management alternatives.
  - Reduced transaction costs
- Encourage Competition (Survival instinct will mother innovation, reduced cost, better investor service, local languages)
- Develop Debt Market
Markets Integration

- Integration across markets for different assets classes including commodity markets, banking, insurance, mutual funds, etc.
  - Through institutional mechanism (EFT, marketing channels, etc.)
  - Cooperation between regulators in different market segment/unification of regulation, (Permitting predatory pricing policies in Forex derivative market, inspite of CCI’s observation, Recent tussle between SEBI and IRDA re: ULIP)
  - Consistent policies, in different market segments (Commodity market allowed to have 8 exchanges, stock exchange is considered as ‘natural monopoly as it is public utility’ by Bimal Jalan Committee)
Imparting financial stability

- Global economic crisis of 2008 forced many governments to provide bailout packages to the Industry.
- The rationale for bailout is that is institutions are too large to fail in public interest.
- India was relatively less effected by the financial contagion.
- However, growing financial integration may make a difficult for economies to be insulated from financial shocks in the long run.
- Government should consider imposing FAT (Financial Activities Tax) on all financial transactions and use the amount for imparting financial stability.
Thank you!