

Special Report

INTERVIEW



“ NSE Has One Of The Best Risk Management Systems In Place ”

Ms. Chitra Ramakrishna, MD & CEO, NSE

CNX Nifty has already completed 20 years while Nifty Futures has recently completed 15 years. Can you take us through the transformation of NSE through these years?

NSE has been the first mover in many areas. So, in a way there are too many milestones that the exchange has achieved since its recognition as a stock exchange in April 1993. Nifty, launched in April 1996, has become the benchmark index of the nation. Then gradually other indices, options were introduced. Alongside, we also set up NSECCCL, NSEIT, etc. for providing peripheral services. In 2002 we started the ETF products. ETF is a very promising segment as it is being proved now and is

ensuing large-scale financial inclusions. During the end of last decade we launched a few new products like currency, interest rate futures, etc. All these are credible efforts in their own rights and have ultimately transformed the Indian capital market.

What role has technology played in shaping NSE's makeover over the years?

We started as an online platform. So obviously technology played a key role. From V-Sat to fibre optic cables, the change has already been very substantial, due to the ever-changing technology we are gearing up for adding new services. For

example, as trading habits are changing, lots of people are preferring web and mobile solutions. For such new generation of investors we are adding new features.

Do you think that technology will be more helpful and assist institutional investors through automated trading (algo trading) or high-frequency trading (HFT) than to retail investors, and how do you see this challenge?

Globally, trading patterns and business models have changed over time. In fact since our first year to this year, if you see, it has changed several times. In India also it changed from floor to automated trading and satellite-based trading to leased lines,

etc. Today at many places algorithms are doing what human beings were doing earlier - this change is perhaps inevitable, like in our day-to-day lives where many things have become automated. Each of this has contributed in some way to the overall liquidity and cost in the market, among others. None of these changes were hardly in conflict with each other and among different set of investors / traders. The market can accommodate all.

Risk management plays an important role in mitigating any flash crash or other untoward activities. What are the steps taken by NSE to strengthen its risk management system?

Risk management is a lively process. It changes as per trading norms, SEBI guidelines, etc. NSE has one of the best risk management systems in place. In fact, risk management in India is very proactive. For example, we had an algo trading framework implemented them.

What is the role being played by the products and innovations in attracting new investors and how is the NSE contributing in this respect?

Product innovation is the key. In the past few years we have seen many new products successfully making their debut on the NSE. The exchange has always incorporated market feedback while designing products. At the same time we have kept in mind the regulatory framework. As of today, many such ideas are work in progress while a few others are awaiting SEBI's nod.

ETFs has played an important role in the developed market in spreading equity culture; what is your experience in India and how do you see it going forward?

Today we are billion dollar-plus in ETF AUM and that's a very significant number compared to where we were a year ago or two years ago. Mutual funds, ETFs... these are really the broad-based passive and active investment vehicles into which a saver can put his money. It's also a small ticket product and an investor doesn't have to monitor what he/she is doing. In fact this is the reason ETFs have really taken off in a

big way in many other countries and our passion for ETFs is 10 years old. In the last 15-18 months we have really seen a lot of interest. So today CPSE ETF, Nifty ETF, Bank ETF are all getting good retail interest. There is another very interesting fact: Even in 2011 and 2012 when we all were really worried about retail investors going away from the market, we were consciously at work to open new SIP ETF accounts along with some of the large retail brokers and that really played out very well. This kind of product with the SIP construct may be the right sort of vehicle for an investor to come into the market because it creates a saving habit.

Nifty for many is proxy to Indian investment; what are the steps you are taking to make it more accepted and popular overseas?

Nifty in the last 15 years started first as a barometer of the local market. It has really taken off and found acceptability with the market participants and today truly it is a proxy for the Indian asset class and Indian investment. We also have ETFs structured on Nifty. So we think that the 15-year journey has helped us entrench Nifty as a proxy for investment in India. In fact we are present in 32 destinations already. The exchange has also firmed up its reach in the Asian geographies. Gradually it's not only Nifty but other researched products from the exchange which have also become popular globally. Today the Nifty family has around 40 indices.

The equity market is fairly well-developed in India but the bond market is yet to achieve the maturity required. What is the NSE doing to develop the bond market and what are the main obstacles?

The bond market too has started doing very well of late. The interest rate futures have taken off nicely. Liquidity has come in different bonds that are traded today. With different tenure bonds now making a beginning the market is becoming very wide. In fact while we talk two new IRF products have started at the NSE today. The bond market has its own challenges as the products have different features than conventional ones. It may be a while before it becomes more popular. As an exchange

we have conducted around 1,000 awareness programmes in the last financial year to cover such products.

What is the role, you believe, is being played by the stock exchange towards the growth of an economy, especially channelizing savings into investment?

Like most people in the market we also believe that the amount of savings that comes into the market is still very small. So it's always been our goal to channelize the domestic savings into more productive uses for the country. On the other side, improving financial well-being, creating a sustainable lifestyle, etc. are also important. For convenience of retail investors, structured products like ETF will remain our focus. These products are well-researched and have traditionally given decent returns. Already we are witnessing a spurt in general interest. Besides, with EPFO investments coming into the market, huge savings can get unlocked into productive activity very soon. All these activities are shaping up nicely and we believe that such things are stepping stones that can take investment activities to the desired level.

What is your experience with the SME platform and how is it helpful to both investors and promoters?

The segment is new and is picking up. For the last two years NSE is assisting many companies to raise capital using NSE Emerge (SME) platform. For investors it is an opportunity to pick companies at an early stage of their lifecycle. This initiative is actually in line with the 'Make in India' theme. The SMEs are our hope for tomorrow. With the capital raised through the exchange, hopefully they will grow to become mass supplier of products and services from India soon. At the same time, NSE ensures that proper diligence is applied in the listing process and subsequently.

Can we see NSE being listed and if yes by what time?

We are considering it. The board and the management will take it to a logical conclusion whenever it will be put in place. But we can't say when as there are certain issues.