

Nifty is entrenched as proxy for investment in India: Chitra Ramkrishna, NSE



ET NOW: As ET Now celebrates six years of market leadership, on our super six series, I have someone who is instrumental behind setting and running of India's biggest and most successful exchange, the Managing Director of National Stock Exchange, Ms Chitra Ramkrishna. Chitra, fantastic to have you on ET Now. Thank you for joining us. We are completing six but it's 20 for NSE. Before we get into specifics, the journey has been incredible from humble beginnings to a lion market share now.

MS CHITRA RAMKRISHNA: First of all my hearty congratulations to ET Now for the six year journey, and I think we've all been part of some very, very interesting development and growth stories in markets in India. We are at a point in time where Indian markets are big, globally benchmarked. So I think it's good that we all had a share in being part of that story.

ET NOW: So in financial markets we always say don't focus on where the buck has moved, always focus on where the buck would move. So where from here now?

MS CHITRA RAMKRISHNA: There is -- what we have reached in 20 years, what you have reached in six years, I'm sure if we introspect, some good wins but a huge opportunity lying ahead of us and both on domestic as well as international front in terms of how the markets can shape up from here.

I think we have said this many times, you, us everybody in the market that the amount of savings that comes into the market is still a very small share. So the domestic savings funding risk capital in the market is really a small percent in a large saving country like India. So it's always been our goal, it's always been everyone's goal, how to channelize the domestic savings into risk capital for the country, that's one side. On the other side, so how do you make savers improve their financial well-being, how do you ensure that when they save they are safe, they are able to sort of create a sustainable lifestyle for themselves as they get older or to put it in another way how do they share in the financial prosperity of the markets, right?

So this is really the peg on which, on one hand the suppliers of capital can improve their financial well-being; on the other hand, the consumers of capital can do better with greater domestic savings coming. And that is the beautiful role I think we all have to play to see how we can improve this mix.

ET NOW: It's quite sad, if I look at Indian household ownership of equities it's about 2.5 to 3%, less than 3% for sure. 40% of the free float of Nifty 50 companies is owned by foreign investors. So foreigners they have – belief in Indian equities and Indian's don't like Indian equities.

MS CHITRA RAMKRISHNA: I wouldn't put it that way. I would say that it's a function of many things. When we say that we want domestic savings to come into the market, today they are finding their ways into other forms of investment, physical assets etc. We want more coming into financial assets; really that is the play here.

It is not so much a question of reference as it is of awareness, as it is of ease of access to the markets. And I think that's really where the role we all have to play. And when we look at first time savers coming in, you're also looking at what kind of mass appropriate products you can provide them which is the right first baby step for them to come into the market.

Typically in most markets these steps were taken when the retiral monies started putting a little bit of their retiral corpuses into the markets. In India that's about to happen, as we speak and I think that's a milestone step because that will be the beginning of indirect participation for the small saver.

Second, in terms of vehicles, so what are appropriate vehicles for first time investors in the market? Mutual funds, ETFs, these really are the broad-based passive and active investment vehicles into which a saver will comfortably put his money. He also has an ability to put a small ticket and he doesn't have to monitor what he 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 and we started with Nifty ETF and I'm glad to say that in the last 15-18 months we have really seen a kink in the curve in terms of real growth story there.

It used to be only Nifty ETFs and gold ETFs at one point but now with the CPSE ETF we really found the kink in the curve. So today CPSE ETF, Nifty ETF, Bank ETF are all getting good retail interest.

There is another very interesting fact. Even in 2011, 2012 when we all really worried about retail investor 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 and we did have lakhs of new accounts being opened in ETF even in that period. So what does it really tell us? It tells us that this kind of product with the SIP construct is the right sort of vehicle for an investor to come long term into the market, creates a saving habit, it also creates the channel through which coming into the market should be as easy as going to a bank and putting your money and it helps us create that infrastructure.

So I certainly think, see today we are a 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.

ET NOW: So sixth and this also coinciding with the 15th anniversary of Nifty. It's become a global benchmark now, the ultimate index which tells you what the market mood is. An advertiser would say, cool means Coca Cola, but Nifty means what is market level.

MS CHITRA RAMKRISHNA: Fantastic, I'm happy that you're saying that. Indeed, Nifty in the last 15 years, started first as a barometer of the market but the beauty is it has really taken and found acceptability with the market participants and today truly it is a proxy for the Indian asset class and Indian investment. In India of course people trade in Nifty but you also find a lot of the overseas destinations where we are licensed Nifty. There are products on Nifty that are written -- structured or ETF kind of products. We also have ETFs structures on Nifty and other domains and of course exchanges that trade Nifty. So I think the 15 year journey has helped us entrench Nifty as a proxy for the investment in India.

ET NOW: You are present in nearly one dozen countries, about 15 to be precise. But except in SGX, the response on other exchanges has not been strong. So if I look at American investors, European investors they have presence in Indian stocks but somehow Nifty has not taken off as an instrument there.



MS CHITRA RAMKRISHNA: So you should perhaps look at it in two aspects. Nifty as an underlying for structured products and ETFs that has definitely a huge acceptability and we don't have numbers. But there is definitely a large amount of products on Nifty. When you talk about Nifty on an exchange that is a function of many things, right? So it is a function of all the alternative products available on that exchange and therefore it vies with many other products before people start investing capital and money in trading in Nifty. So that requires a lot of seeding effort from the concerned exchange as well as from us and it takes time.

So we are very much focused on putting that to work along with those exchanges to create that interest in the local Nifty in each of those exchanges. SGX was a natural one because of the interest in India and they already had a lot of history around the Indian products.

ET NOW: Time proximity is also there.

MS CHITRA RAMKRISHNA: Correct. So it was an easier one to sort of develop. In the other exchanges it will certainly be a greater amount of effort that is required and that's something that we would be very much keen to do.

ET NOW: If I look at two big index futures, one is Dow and the second is S&P, they both trade 24 hours, are you moving that way?

MS CHITRA RAMKRISHNA: No, as we have said exchanges will have to gear up whatever the regulatory paradigm is. So this is something that we will await.

ET NOW: So as of now it's nine to 3:30, it's not nine to 4.

MS CHITRA RAMKRISHNA: Unless you have some information which I don't have. [Music].

ET NOW: Big change in the entire broking industry is that machine-based trading; algorithm trading has now made a strong in-road which will have impact on brokerages, so how will the setup change?

MS CHITRA RAMKRISHNA: Every few years you find business models change, right. The business model has changed for brokers. In fact since our first year, to this year, if you see, it has changed several times. This is something that the industry is geared for. So of course when you move from floor to automated

trading and when you moved from a satellite-based trading to leased lines and when you moved from a single desk office to having rows of jobbers who would do the same thing, to today having algorithms doing what human beings were doing earlier, this change is inevitable and worldwide you have seen this change happen. So industry adjusts itself to the new economics of each of these business models, from floor to satellite definitely brought down bid-ask spreads tremendously but volumes increased. When you brought in more jobbers, again it brought in greater amount of depth in the market, bid-ask spreads apart. So each of this contributes in some way to the overall liquidity and cost in the market and therefore industry aligns and changes itself to the new reality.

See the good thing in India is and perhaps very few countries have these kind of advantages, is that technology, technology skills in India are available at price points which are perhaps not thinkable in many other horizons. So it makes the cost of doing the business in India very much more competitive than perhaps in many other jurisdictions.

ET NOW: What are the patterns currently indicating since you observe data? In this bull run which is called as the Modi bull run, which started in 2014 volumes have gone up, are you getting a sense that retail investors is genuinely coming back, is there uptick in delivery based buying?

MS CHITRA RAMKRISHNA: So I want to say one thing that actually our delivery volumes have always been quite healthy and definitely delivery volumes are strengthening, but definitely retail investor participation has increased in the last one year and in fact it's not just in the main cities even in -- maybe if you'll go to the next rung, so about 40-50 odd locations, everywhere there is a positive uptick. So there is definitely an increase in the number of investor accounts coming in. There's also an increase in the number of SIPs on ETF directly which comes into the market. So yes definitely there is an increased participation.

ET NOW: Every time whenever there is a flash crash or whenever there is a big selling in individual F&O stocks, brokers blame it on NSE and their favorite line is NSE has done these huge selling. Do you think rather than blaming it on the exchange we should understand that there is a system which is in place and system is actually transparent and it is structured in such a manner that it will protect the investor and the trader?

MS CHITRA RAMKRISHNA: Let us put it this way, okay. In fact I think that in the last five years we hear less of this than we heard.

ET NOW: It's come down.

MS CHITRA RAMKRISHNA: Before five years.

ET NOW: Yes.

MS CHITRA RAMKRISHNA: Because everyone has understood where the facts are.

ET NOW: I'm glad we are having this conversation because for the longest time, I have heard it, I've reported this NSE has done these huge selling.

MS CHITRA RAMKRISHNA: So the risk management in the last 20 years since our existence has evolved significantly and full credit for this really I would say goes to SEBI and the regulators because we were always ahead of our times. SEBI's risk management framework if you would trace back and see India has always been ahead of the curve compared to other countries, real-time risk management, client level risk management. These were all pretty unheard of when the regulators introduced it and anyone could have been skeptical about it. But proof of the pudding is that it has lasted us through many volatile times in the last so many years.

Today if you ask many of the brokers, hand on the heart they will be happy that there is an independent exchange clearing corporation that manages the risk irrespective of what their day to day pressures and pulls maybe, right because in the long run that's the only thing that ensures that settlements continue without a blip and market risk is managed. So everyone understands that there is a risk management, the principles are the same for everybody and so if your capital margin etc, is required there will be a set of actions that will come into play. So I think the appreciation for all of this is definitely significantly better off today.

ET NOW: The markets are mature and I think markets have also understood the importance of risk management. But what can be done to really prevent flash crash or an incident, what happened in the Nifty three, four years ago that can be avoided?

MS CHITRA RAMKRISHNA: There are couple of things that, I think our first principles that we should always live by, that's what we've believed at NSE. For us governance is primary, fundamental and it is our Raison D'être. Not just for us, but it's also very important for we realize that when we go out and internationally compete for business, the corporate governance framework of this country is what really holds us in good stead vis-à-vis many other markets. Here the changes of the last three, four years has done us incredible good. There may be other metrics on which we can do better etc. but if you look at the metrics on shareholder protection, India has really jumped up and today we are in the top 10 countries in the world.

So this is really the strong platform on which Indian markets, NSE can be there for the long run. For us, part of our exercise is to be a facilitator to work with corporates, to help them comply with a lot of these requirements. In fact last year we have done several engagement programs with regulators on one hand, but with the corporates on the other hand to get greater understanding within the corporates on how to comply, spirit of compliance and so on. So I think this is an effort that will really steel up and strengthen our markets when we look at competing internationally. It will help us attract listings; it will help us improve our capitalization. So if you ask me the important litmus test for us is to really sort of put all those effort behind the corporate governance, which is what we are doing and which we will continue to do.

Second, markets are continuously evolving. So for any market infrastructure and for any regulator, how do you remain ahead of the curve, right? Second, even if you are not ahead of the curve, what mitigants do you have to ensure that you're reasonably protected.

Number three, how quickly you can adapt to a change. All these are critical. I would say that our regulatory framework many times is preemptive; it is ahead of the curve. For example, when you look at automated trading we had a framework ahead of many other countries in the market and I think those were huge risk mitigants that were already available.

ET NOW: T plus 3 because T plus 2, I think it's been done efficiently and effectively.

MS CHITRA RAMKRISHNA: Correct. Similarly, even for an algorithmic trading, regulator had the framework ahead of time. In fact, many other regulators brought this framework only after they faced this situation. That is not the case in our country, we had our framework. Any framework will continuously tweak, now that cannot be reflection that adequate attention has not been paid to it. That's not a good argument. My sense is that our regulator had been ahead of the curve. We are very responsive and we tweak our parameter in response to situation and I think that's the best one can do.

ET NOW: In terms of Innovation what's next from NSE?

MS CHITRA RAMKRISHNA: The huge appetite that exists in investor community, to feed that, it's our job to continuously manufacture and provide new products, some of them will meet the requirement of

mass Investor and some of them not. But our job is to keep the creative element going and provide the suit of products to different kind of investor. Every investor who has a need should find a product he can use on the exchanges.

ET NOW What is missing right now? What are you planning to focus on?

MS CHITRA RAMKRISHNA: Let me put in this way, from 2008, we are no longer just an equity exchange, now we have multi class assets. Currency which was big gap in the entire offering has now become a good universal asset class available on the exchange and we are one of the very liquid market world wide.

Second, Fixed income - interest rate, as we speak; last one and a half years we have very good interest rate product in the market. So today, if you reflect, you are very broad based multi asset class market and that is something which speaks volumes for the maturity and potential of the markets. What more can be done? Of course, in each asset class, many more products will come in to play.

Second ETF, for example, on each of these asset classes will come into play. That is all the work in progress that is the work to be done. But if you look at, for example, interest rate futures product, even 10 year product, you will have other maturity that will come in, in currency for example, you will have currency pair that will come in. So these are all more of the same. But the building blocks have now sort of put in place. So I think it gives us a faster way to deliver to the markets.

ET NOW: You have presence in commodity markets but it is not sizeable presence. Even though your investment NCDEX which is backed by NSE, it is not blossoming, why is that?

MS CHITRA RAMKRISHNA: I would differ from your take on this. I think NCDEX has done incredible work in creating a market where none existed in entire agro commodity space. As we all know, agricultural commodities is at the heart of the Indian growth story. So the Futures market that they have built for many of the agricultural commodities today, serves a very useful economic purpose and they built liquidity in products where none existed. What we also must remember is that creating liquidity commodity is unique to the Indian market. I can't take a reference price from somewhere and trade that product. So that is a much difficult grind, but I think they have done an incredible work in that market for agricultural commodity, that is their specialization.

ET NOW: What is exchange doing for financial inclusion, what are you doing to ensure that savings and investors are back in the system?

MS CHITRA RAMKRISHNA: This is something we live by and for last 15 years as far as I can recall, we have been passionate about financial education, financial literacy, and inclusion. We believe literacy is the first step to a financial inclusion of a saver. We have to address this in many stratas, we have to address this as life skill training for that student today, we have to address this as an important induction piece for every first time earner and we have to address this as life saving opportunity for those near retirement. This is because, for every one of them without this skill, they will perhaps face the uncertainty of erosion in their lifestyle when they retire, when they no longer want to work. So we engage with schools, we do different kind of programmes with schools; we also have a piece in the curriculum in this programme. We reach out to different corporates and first time earner. We do huge investor awareness programme through several people including your self. So this is a task which would never be complete but am happy to say we do close to more than 1000 programs a year.

ET NOW: A personal question, what keeps you going? 20 yrs. at NSE, now in a comfortable position, lion in market share. So what keeps you going? How do you get so much of passion that's constant endeavor with my team. I constantly tell them be passionate about what you do.

MS CHITRA RAMKRISHNA: Actually I am just grateful that I have got abundant opportunity in my life where every day I wake up and there is something interesting to do. There is something interesting

which you can do which impact the larger public for good. I think that's what keeps me going. And if you have an opportunity like that, you shouldn't let it go right?

ET NOW: I am so glad that you joined us.