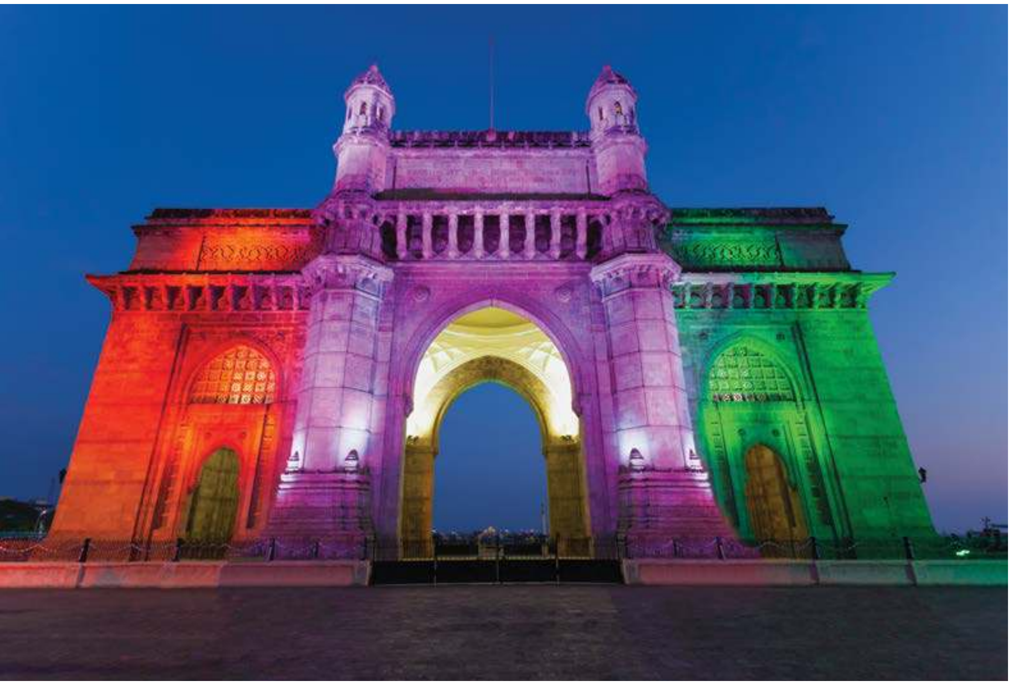

Opening up to the world

India seeks to live up to the expectations of investment funds and their clients – wherever they are based.

As the World Bank notes in a recent report “India today is a land of contrasts. It is one of the fastest growing economies in the world, but also a country dealing with an immense, unfinished development agenda of global significance. Poverty has decreased dramatically, but not everyone has benefited equally.” With over 1.2 billion people and a GDP growth rate still exceeding 7% p.a. , India is attractive as an investment opportunity both for its own citizens and those from overseas. As the world’s largest democracy with a young population and solid culture of savings, India is also well placed as a potential market for investment companies from around the world, many of who have set up ventures working with large indigenous companies. To date this appears to have worked to the benefit of all concerned and for the last few years India has seen a rapid growth in Assets under Management (AuM) fuelled by both inflows of new money and gains in local market indeces.

Improving the infrastructure

Despite considerable progress in terms of regulation and infrastructure development, India remains a far from straightforward investment destination. Domestic investors have seen mutual fund opportunities grow at an exciting rate with a number of managers now responsible for assets under management (AuM) of close to $10 billion, and offering a wide range of products. However, their involvement in non-Indian markets is modest, typically accounting for less than 1% of overall investments. As a result diversification is not easy to achieve. Cross border flows in both directions remain small compared with the latent opportunities presented by the markets themselves.

In terms of preservation of capital within the country, having limited international investment is beneficial and given the possibilities at home, few Indian retail investors are that concerned about investing overseas. India has however been working to encourage overseas investment into the market. Measures in terms of new regulation and process have been extensive and no doubt occupy much time at custodian banks and others who are seeking to deal with all of the issues raised. Deutsche Bank, whose ‘Newsflash’ service providing information on market changes was praised by respondents to the survey, highlighted a number of initiatives that they have been responding to over the last 12-18 months. The Securities Exchange Board of India (SEBI) has made amendments to mutual fund regulations, proposed new regulation to prohibit insider trading, notified various amendments to the Issue of Capital and Disclosure Requirements (ICDR) regulations in the area of warrants and has proposed the establishment of International Financial Services Centres (IFSCs).

Standard Chartered Bank also noted changes to Foreign Portfolio Investor (FPI) rules, changes to the India – Mauritius Tax Treaty (around half of all overseas investment into India is through Mauritius based investment vehicles) and the movement of settlement of trades in Indian Government securities by non-Indian brokers and investors to T+2 in order to make settlement more practical for foreigners and their custodians. There has also been a need to implement FATCA in India. These changes are not necessarily major factors in setting either the overall investment or economic climate. However, they do illustrate the scale of issues that custodian banks need to deal with as India seeks to develop a capital market capability consistent with its long term economic potential. These are all projects that will benefit the market development over time and help place India as a potential leader among emerging markets capital centres.

Not all plain sailing

Somewhat ironically given the generally good news and regulatory initiatives the actual market performance has been far from robust. The S&P BSE SENSEX Index which was over 29,000 in April 2015, languishes at a little over 25,000 now and in March 2016 was even lower. While the decline does not yet constitute a formal bear market it makes life difficult for new funds. Perhaps not surprising was the recent announcement of new ETFs invested in Indian Government bonds first launched by in November 2015 and listed in London by Zyfin and a more recent launch by MCB Capital Markets and Zyfin which will be a Mauritius based security. In an environment where Indian Government bonds yield over 7% and equities are down by more than 15% in a year such an approach to attracting assets to manage is only to be expected.

However in spite of the weak stock markets, Indian mutual fund AuM have in fact increased over the last twelve months. The Association of Mutual Funds in India (AMFI) reports regularly on levels of AuM by type of fund, manager and also publishes monthly performance data. Between April 2015 and April 2016 AMFI calculates that AuM within the mutual fund industry have grown from Rs. 11.9 trillion to Rs. 13.9 trillion a gain of 16%. The mix of assets is relatively unchanged during the last twelve months with equities continuing to account for around 31% of all AuM and debt securities around 44%. More than 85% of equity AuM is held by individual retail investors while cash and money market funds are dominated by institutions that hold more than 90%. Overall retail investment in mutual funds grew by around 13% in the last year. Clearly individual investors have been resilient in the face of weaker market conditions particularly for equities. This is a sign of a relatively mature market and suggests that the business is built on a very sustainable foundation in terms of investor expectation and behaviour.

Identity for all

One of the most interesting developments in India has been the work done on digital identity management. An initiative was first proposed nearly a decade ago. However the effort really got under way in 2011 and has firmly taken root over the last few years. As a result banks and asset managers can use the Central KYC Records Registry (CKYCR) to facilitate their own KYC checks for opening new accounts. By taking a leadership role in establishing digital identity for its citizens using smart cards, the Indian government has arguably done more than any government ever to stimulate financial inclusion. It has been calculated that more than 150 million new accounts have been added over the last three years roughly one million every week. Not only are millions of new bank accounts being opened every month but the cost of KYC checks for all financial institutions has been dramatically reduced. This has allowed the flourishing of new product initiatives in insurance and asset management. Products that incorporate smaller premium levels and lower AuM thresholds are now commercially viable in a way that was simply not the case previously. The outcome of this experiment in terms of impact on poverty and domestic financial markets is not yet certain. However it is something that the rest of the world is observing with growing interest.

The warnings of potential economic problems in China and Russia and serious political uncertainty in Brazil, have meant that India has become the most interesting of the BRIC markets in terms of its economy and financial market development. It is clear from the survey results that the local market providers of the relevant administrative services are fulfilling their role in helping to ensure that the rapid change and growth does not lead to massive dislocation and the loss of confidence that could so easily follow. ■

Methodology

Global Custodian domestic surveys are intended to assess the extent to which local service providers are meeting the expressed needs of their domestic clients. Such needs are often different from those of cross-border investors covered in the Agent Bank surveys published by the magazine. Many service providers also focus mainly or exclusively on domestic clients.

To obtain the relevant information, clients are invited to complete a short on-line questionnaire. This typically involves around 20 questions. The questions are grouped into between eight and twelve service categories for presentation purposes. Respondents evaluate each question for each service provider that they use. Scores range from 1 = Unacceptable to 7 = Excellent. Where clients have insufficient experience of a service or do not use it all, they can enter N/A. Clients are also asked to indicate which categories are most important to them in assessing the overall service being received and are given the opportunity to provide explanatory comments and identify specific strengths and weaknesses of their service provider(s).

Each question is given an individual weighting depending on the importance attached to it by clients. Each respondent is given a weighting based on the scale and breadth of their business and the detail included in the response(s) they provide. Respondents are also described by their type of business and the level of their assets under management (AuM).

Global Custodian Research department calculates weighted average scores for each provider, for each question, each category and an overall total. The Research department also calculates scores for different types and size of respondent allowing us to reflect as accurately as possible the relative position of each service provider, both overall and with specific client subgroups. Summary information is presented in each Provider Profile together where relevant, with explanatory contextual commentary.

More detailed analysis of scores and comments received is available from the *Global Custodian* Research department. This group also administers the digital accreditation process by which suitably qualified providers can receive a formal accreditation of their achievements, in the form of one or more digital badges.

SURVEY OVERVIEW

Excellence remains the norm

As the Survey broadens its coverage, providers maintain their high standards of customer service.

2016 marks the second Survey of domestic custody services in India and saw a record response rate to our questionnaire. But the survey is not simply about numbers, it is also about quality of responses and the breadth of activity of respondents. Within the Indian domestic mutual fund industry we are pleased that more than half of the top 40 assets management groups, measured by Assets under Management (AuM), responded to the survey this year. These firms account for more than two-thirds of the AuM within the industry and represent some of the most demanding clients. We are also pleased to note the active engagement with the survey this year of SHCIL Stockholding, the largest domestic custodian with more than $185 billion of assets in custody.

Across all responses scores generally came close to maintaining the very high standards set in the inaugural survey of 2015. While scores in all categories were a little lower, this should be expected given the increase in the number and sophistication of respondents. It should also be noted that scores in all categories were better than 6.0 (Very Good), which represents an excellent result for the industry as a whole and recognises the very high levels of performance that providers are able to sustain. Figure 1 shows the specific scores across the survey as a whole in each of the ten service categories.

The positive outcome is not only illustrated by the scores achieved but also by the balance of comments with positive comments outnumbering negative ones by a factor of more than two to one. All major providers attracted a range of positive comments across most aspects of service, though Client Service and Relationship Management was probably the stand-out area in that regard. Aside from the area of Fees, which is always marked down in surveys of this kind, the only other issue of general concern was the ability of providers to customise services to the requirements of individual clients. This area saw the lowest average score within the survey at 6.24 in terms of domestic activity. Handling of non-domestic securities, with a score of 6.19 was actually the weakest score within the survey as a whole. The highest scores within the Settlement category were reserved for the process of Matching and Settlement itself which was the only question to achieve an average better than 6.50. Other areas of particular note in terms of individual questions were Accuracy of Reporting generally (6.44) and specifically Timeliness and Accuracy of Valuations (6.43).

Figure 2 shows the relative ranking of each of the ten service areas, both for 2016 and 2015. This is based on information provided by respondents detailing those factors that they consider most important in evaluating service provision. The chart shows that Settlement and Cash Management remained the number one priority for clients in 2016 as it was a year ago. However the relative position had declined slightly from 11.34 to 10.50. In fact almost one quarter of respondents considered this to be their top priority, while less than 5% ranked it below halfway as a valuable component of service. Reputation and Asset Safety saw around 15% of respondents regard it as their top priority. Interestingly a marginally high number rated Fees and Value Delivered as number one, even though the average ranking of this item was only fifth. It is clear that

Figure 1: Service area scores

Service area	Average 2016	Average 2015	Difference
Relationship management & client service	6.31	6.55	-0.24
Fees & value delivered	6.32	6.43	-0.11
Settlement	6.44	6.55	-0.11
Asset servicing	6.34	6.53	-0.19
Handling non-domestic securities	6.19	6.45	-0.27
Reporting	6.34	6.44	-0.11
Technology	6.27	6.47	-0.20
Fund accounting & valuation	6.36	6.32	0.04
Trustee services	5.48	5.49	-0.01
Reputation & asset safety	6.58	6.53	0.04

Figure 2: Relative importance scores

Service area	Rel importance 2016	Rank	Rel importance 2015	Rank
Settlement & cash management	10.50	1	11.34	1
Reputation & asset safety	9.11	2	9.64	2
Relationship management & client service	8.97	3	8.42	4
Cost & value delivered	8.73	4	8.09	5
Asset servicing	8.47	5	9.47	3
Fund accounting & valuation (if used)	6.39	6	5.07	8
Technology	5.76	7	5.52	7
Operational reporting	5.55	8	6.67	6
Special operational requirements	4.95	9	4.10	9
Trustee & administration services (if used)	4.20	10	1.89	10

Fig 3: Type of respondent

Fig 4: Size of respondent

for some clients lower Fees are indeed the most important factor in evaluating providers. However, for many it is also clear that Fees are much less important. Even so the majority of respondents regard it as being within the top five considerations. While Trustee services remain the least important, they are not used by all respondents. The broader coverage of the survey this year did result in the relative position of Trustee capabilities increasing from 1.89 a year ago to 4.20 in 2016.

In terms of Type and Size of respondents, Figures 3 and 4 provide a breakdown and a comparison with 2015. What is noticeable this year is the greater proportion of responses from insurance companies, which was the largest single group, accounting for almost one-third of responses by weight, a much higher proportion than in 2015.

There was also more consistency with no broker dealer responses and very few from banks. Both those groups have slightly different priorities from the asset management, mutual fund and insurance companies. As a result the survey is a reflection of a more homogenous business.

In terms of size, we are pleased to note the much greater involvement of some of the largest groups of asset managers. Those with AuM of more than $10 billion accounted for more than one quarter of responses by weight. This was the largest group and was three times as big as in 2015. Commensurately less weight is attached to responses from very small, arguably less sophisticated and demanding clients. They accounted for less than 15% of the total in 2016 compared with almost one-quarter a year ago.

Overall the survey reflects a group of providers performing well in support of an industry that itself is going from strength to strength. Undoubtedly there is a link between the success and the ability of core service providers to support it effectively. ■

Deutsche Bank

Deutsche Bank AG, Mumbai, recorded scores that were generally a little higher than the excellent levels seen in the inaugural 2015 survey. "Deutsche Bank has highly skilled staff, efficient and robust systems and excellent connectivity with the market players" was a summary from one very satisfied client. Others praised Deutsche for its market information 'News Flash' as well as the quality of their relationship staff and their ability to properly understand client needs. The only area of concern from a client perspective was that Deutsche is not always as willing as client might wish when it comes to offering custom and more flexible solutions. Otherwise clients could find no areas of service that required improvement.

Deutsche has a broad range of clients measured by both asset size and type. The largest number of responses was received from mutual fund clients (>40%) and insurance companies (>35%). In both cases these are slightly above the overall survey rates, with commensurately fewer responses from asset managers (separate accounts), banks and others.

In terms of the actual scores achieved by Deutsche the lowest scores were seen around the handling of foreign securities. Given the global capability of the bank, that is perhaps a surprise but also no doubt reflects the very high scoring in other areas o f service. Overall Deutsche has a significant market share which, in light of continued excellent performance is only likely to increase. ■

Table 1: Service area scores

Service area	Deutsche Bank	India Average	Difference
Relationship management & client service	6.60	6.58	0.02
Fees & value delivered	6.58	6.47	0.11
Settlement	6.77	6.61	0.16
Asset servicing	6.65	6.62	0.03
Handling non-domestic securities	6.53	6.61	-0.08
Reporting	6.68	6.52	0.16
Technology	6.70	6.51	0.19
Fund accounting & valuation	6.92	6.63	0.29
Trustee services	N/A	N/A	N/A
Reputation & asset safety	6.80	6.69	0.11

Table 2: Breakdown by size

Size	Deutsche Bank %	Survey 2016 %	Survey 2015 %
Less than US$ 100 million	8.4	14.7	24.0
US$ 100-500 million	20.9	12.6	20.0
US$ 500-1,000 million	13.8	10.4	18.0
US$ 1,000-5,000 million	15.1	17.7	16.0
US$ 5,000-10,000 million	23.0	17.8	14.0
More than US$ 10,000 million	18.8	26.8	8.0

Kotak Mahindra

Kotak Mahindra Bank has a very specific client base which drives the nature of the responses it receives. Essentially all respondents were asset managers with less than $500 million of AuM. This allows the bank to focus its efforts around a very discrete offering and without doubt this helps the bank achieve excellent scores. As an example the recent offering of fund accounting reports on-line is a very specific effort to meet the needs of its client base.

The overall result is impressive. Not only were scores higher than in 2015 in all but one category, comments were also positive. One client noted that "Kotak has an excellent relationship team," and the "on-line access is really good." Alternative investment managers seem to be especially satisfied with the ability in recent years of Kotak to work with them to increase the visibility and success of this activity following the changes made by the regulator in 2012.

Scores were also higher in Reputation and Asset safety, improving from 6.65 in 2015 to 6.75 this year. The 2015 acquisition of ING Vysya Bank in April 2015, which moved the bank up to become the third biggest in India by market capitalisation no doubt added further to the overall view of the bank's reputation in the custody and securities servicing business. Overall it has been a very productive period for the bank that is reflected in the results seen in the survey. ■

Table 1: Service area scores

Service area	Kotak Mahindra	India Average	Difference
Relationship management & client service	6.69	6.61	0.08
Fees & value delivered	6.69	6.53	0.16
Settlement	6.68	6.59	0.09
Asset servicing	6.52	6.62	-0.10
Handling non-domestic securities	6.45	6.34	0.11
Reporting	6.69	6.57	0.12
Technology	6.75	6.65	0.10
Fund accounting & valuation	6.48	N/A	N/A
Trustee services	6.29	N/A	N/A
Reputation & asset safety	6.75	6.65	0.10

Table 2: Breakdown by size

Size	Kotak Mahindra %	Survey 2016 %	Survey 2015 %
Less than US$ 100 million	66.7	14.7	24.0
US$ 100-500 million	33.3	12.6	20.0
US$ 500-1,000 million	0.0	10.4	18.0
US$ 1,000-5,000 million	0.0	17.7	16.0
US$ 5,000-10,000 million	0.0	17.8	14.0
More than US$ 10,000 million	0.0	26.8	8.0

Standard Chartered

Standard Chartered Bank (SCB) has a diverse base of clients in India though in this survey no asset managers handling separate accounts gave a response. Mutual fund managers formed the dominant portion of the responses by weight. As far as Size of client is concerned, responses represented all ranges from the very smallest to the very largest. The largest group of respondents were in the $1-5 billion AuM range.

From a scoring perspective SCB showed a definite improvement compared with 2015. Scores were ahead of the India average in all ten categories and overall the average was 0.28 points stronger than the market as a whole. It is interesting to note that SCB scored especially strongly in Reputation and Asset safety as well as Fees and Value Delivered. In both cases it achieved the best scores among the leading service providers. Somewhat lower scores were seen for Handling of Alternative assets, though the system supporting derivatives was singled out for praise form one happy client.

Client comments were also very favourable overall. One client stated that, "SCB automated solutions have helped us achieve efficiencies in operations and the bank is always innovative and ahead in offering new services and products." Another client praised the "attentiveness, accuracy and timeliness of SCB personnel." Overall SCB continues to develop its business in a very successful manner in the market. ■

Table 1: Service area scores

Service area	Standard Chartered	India Average	Difference
Relationship management & client service	6.50	6.61	-0.11
Fees & value delivered	6.72	6.59	0.13
Settlement	6.66	6.58	0.08
Asset servicing	6.50	6.63	-0.13
Handling non-domestic securities	6.53	6.67	-0.14
Reporting	6.64	6.25	0.39
Technology	6.39	6.53	-0.14
Fund accounting & valuation	6.58	6.82	-0.24
Trustee services	6.28	6.75	-0.47
Reputation & asset safety	6.89	6.48	0.41

Table 2: Breakdown by size

Size	Standard Chartered %	Survey 2016 %	Survey 2015 %
Less than US$ 100 million	18.5	14.7	24.0
US$ 100-500 million	9.3	12.6	20.0
US$ 500-1,000 million	10.2	10.4	18.0
US$ 1,000-5,000 million	33.3	17.7	16.0
US$ 5,000-10,000 million	14.8	17.8	14.0
More than US$ 10,000 million	13.9	26.8	8.0

SHCIL Stockholding

Stockholding is by some margin the largest custodian in India. In the survey this year that was reflected in the responses received, with the firm accounting for almost one-third of responses based on weight and a similar proportion by number. As might be expected the breakdown by both Size and Type of respondents was similar to the overall position. However Stockholding was overrepresented in terms of the very largest of clients and also had more that fell into the Other type category, including banks and funds.

Stockholding received a number of positive comments concerning most aspects of service. A number of clients praised the 'quality of personnel' and high marks were given by one client for the "commitment, relationship management and core custody services." Indeed core Settlement capabilities were singled out more often as a strong point of the Stockholding offering, than for any other provider. Getting core services right and dealing quickly and efficiently when things do not go smoothly are the hallmarks of successful custodians the world over and Stockholding is no exception.

There are no scores to compare with from 2015. However, results this year were very strong. In all areas except Fees, Stockholding outscored the country average. Its best scores were seen in Trustee services where it was by some way the best among all major providers. For a market leader the scores were highly impressive and bode very well for future business growth. ■

Table 1: Service area scores

Service area	SHCIL Stockholding	India Average	Difference
Relationship management & client service	6.58	N/A	N/A
Fees & value delivered	6.25	N/A	N/A
Settlement	6.66	N/A	N/A
Asset servicing	6.46	N/A	N/A
Handling non-domestic securities	6.56	N/A	N/A
Reporting	6.44	N/A	N/A
Technology	6.28	N/A	N/A
Fund accounting & valuation	6.49	N/A	N/A
Trustee services	6.73	N/A	N/A
Reputation & asset safety	6.77	N/A	N/A

Table 2: Breakdown by size

Size	SHCIL Stockholding %	Survey 2016 %	Survey 2015 %
Less than US$ 100 million	8.9	14.7	24.0
US$ 100-500 million	14.8	12.6	20.0
US$ 500-1,000 million	9.8	10.4	18.0
US$ 1,000-5,000 million	10.7	17.7	16.0
US$ 5,000-10,000 million	11.5	17.8	14.0
More than US$ 10,000 million	44.4	26.8	8.0

Other banks

There were a number of other providers who received responses in 2016, more than a year ago. From this group, HSBC garnered the largest number of responses from both mutual funds and insurance companies and SBI SG was better represented than others. By contrast the representation of Citi in the survey was much lower than in 2015 and insufficient to merit inclusion in the individual provider profiles.

Scores across all providers were more mixed than might have been expected and on average the group was generally behind the four major providers covered directly in the survey. However even though scores were relatively disappointing they were for the most part better than 5.0 (Good) and in other circumstances might be considered more than adequate. However at this stage they do not suggest that any of these providers is likely to challenge the major providers in the near term.

Comments were mixed. HSBC was praised for its 'strong reputation' and well trained and professional staff. However responsiveness was seen as lacking by some respondents as was the inflexibility of the account opening process. SBI SG was seen as offering competitive pricing and good support but was let down by some lack of regulatory knowledge among staff as well as customisation capability. PNB Gilts was considered expensive by one insurance client but its scores overall were satisfactory. ■

Table 1: Service area scores

Service area	Other banks	India Average	Difference
Relationship management & client service	5.39	6.00	-0.61
Fees & value delivered	5.81	5.25	0.56
Settlement	5.58	5.29	0.29
Asset servicing	5.70	4.85	0.85
Handling non-domestic securities	5.03	6.70	-1.67
Reporting	5.54	5.50	0.04
Technology	5.54	4.50	1.04
Fund accounting & valuation	5.41	5.78	-0.37
Trustee services	5.02	6.00	-0.98
Reputation & asset safety	5.85	6.38	-0.53

Table 2: Breakdown by size

Size	Other banks %	Survey 2016 %	Survey 2015 %
Less than US$ 100 million	9.0	14.7	24.0
US$ 100-500 million	9.9	12.6	20.0
US$ 500-1,000 million	0.0	10.4	18.0
US$ 1,000-5,000 million	27.0	17.7	16.0
US$ 5,000-10,000 million	32.0	17.8	14.0
More than US$ 10,000 million	22.1	26.8	8.0