

Growth of Mumbai as Financial Center- Facts and Perception Study

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Abstract: Mumbai Is Termed As Financial Capital Of India. Rough Share Of Mumbai In National GDP Is Around 7%. Mumbai Contributes One Third Of The Total Direct Taxes Collected By Government Of India. Almost 50% Of The Custom Duty Collections Of India Are From Mumbai And Roughly One-Fifth Of Central Excise Collections Are From Mumbai. Mumbai Is Home To Almost All Indian Financial Institutions. In Spite Of These Facts Mumbai Has Not Been Selected To Become Base For First International Financial Center. Hence, A Perception Study Was Conducted To Understand The Opinion Of Management Professionals Regarding The Key Requirements For A Region To Make It Best Suited For Becoming IFC.

Key Words: International, Financial, Services, Investment, Institutions

I. Background Of Mumbai:

Mumbai Always Has Been Termed As Financial And Commercial Capital Of India. Mumbai City As Discussed Here Refers To Mumbai Metropolitan Region (MMR) Which Consists Mumbai Island City (Land Area 68.71 Sq. Km), Mumbai Suburbs (369.00 Sq. Km.), And Other Municipal Corporations And Councils Which Includes Navi Mumbai, Thane, Kalyan-Dombivali, Bhiwandi-Nizampur And Ulhasnagar. Total Land Area Of The MMR Is 4,355 Sq.Km) [1].

As Per Brookings Institute's Global Metro Monitor Database, GDP Of Mumbai Metropolitan Region In 2012 Was USD 124 Billion. [2] In Another Data Released By Oxford Economics The GDP Size Of Mumbai Extended Urban Agglomeration (Consisting Of Mumbai, Navi Mumbai, Thane, Vasai-Virar, Bhiwandi And Panvel) In 2015 Was USD 368 Billion (Purchasing Power Parity Basis Using PPP Conversion Rate Of Rs. 15.5 Per USD) [3]

Rough Share Of Mumbai In National GDP Is Around 7%. Mumbai Contributes One Third Of The Total Direct Taxes Collected By Government Of India. Almost 50% Of The Custom Duty Collections Of India Are From Mumbai And Roughly One-Fifth Of Central Excise Collections Are From Mumbai. (As Per Data Of Income Tax Department - Maharashtra Is The Biggest Contributor To The Indian Government's Income Tax Collections. The State Contributed Rs. 2,77,720.11 Crore, Or About 40 Percent, Of The Total Rs. 6,95,788.85 Crore In Income Tax Collections, In Financial Year 2014-15). Population Of Mumbai Metropolitan Region In 2011 Was Estimated To Be Around 20 Million. [4].

II. Mumbai As Financial Hub:

Mumbai Is Home To Almost All Indian Financial Institutions. The Head Office Of Reserve Bank Of India Who Regulates The Money And Banking Markets In India Is Located In Mumbai. Head Office Of SEBI (Regulator Of Capital Market Of India) Is Also Located In Mumbai. Mumbai Also Hosts Two Major Stock Exchanges Of India – National Stock Exchange And Bombay Stock Exchange. Bombay Stock Exchange Is Also Oldest Stock Exchange In Asia (Established In July, 1875) And Has Largest Number Of Listed Companies In The World. Even The Over The Counter Exchange Of India (OTCEI) And The Erstwhile Interconnected Stock Exchange Of India (OTCEI) Are Located In Mumbai. The Major Commodity Exchanges Of India Are Also Located In Mumbai. This Includes Multi Commodity Exchange Of India (MCX) And National Commodity And Derivatives Exchange Limited (NCDEX). Following Is Data On Stock Market Turnover In India For The Year 2015-16 (Rs. Crores):

Table 1: Stock Market Turnover In India (Year 2015-16)

Item	All India	At BSE	At NSE	BSE & NSE Combined Value As % Of All India
Cash Segment Turnover	49,77,278	7,40,089	42,36,983	100%
Equity Derivatives Turnover	6,93,00,843	44,75,008	6,48,25,834	100%
Currency Derivatives Turnover	75,90,387	27,63,926	45,01,886	95.72%
Interest Rate Derivatives Turnover	6,63,359	1,14,121	5,26,425	96.56%

Source: SEBI Annual Report 2015-16

Most Of The Major Public And Private Sector Banks In India Have Headquarter In Mumbai. This Includes The Largest Public Sector Bank In India - State Bank Of India And The Largest Private Sector Bank In India - ICICI Bank. All Major Merchant Banking Companies, Asset Management Companies Are Also Located In Mumbai. The Head Offices Of Major International Banks Operating In India Are Also Located In Mumbai. This Includes Bank Of America, Citibank, HSBC, Standard Chartered Bank Etc.

III. Understanding Concept Of International Financial Center:

An International Financial Center Serves Customers (Borrowers/Investors) Beyond The Domestic Boundaries Of An Economy. An International Financial Center Facilitates Flow Of Finances, Financial Products And Services In Terms Of Several Global Currencies Of The World. An International Financial Center Facilitates The Following:

- i. Fund-Raising (In Multiple Currencies) Services For Individuals, Corporations And Governments
- ii. Global Portfolio Diversification And Management Services
- iii. Cross-Border Tax Management Services
- iv. Global Investment Banking And Management Services
- v. International Risk Management Operations And Services

Thus It Can Be Easily Deduced That For A City Or A Region To Become An International Finance Center Its Open Connect In Terms Of Flow Of Funds For The Purpose Of Borrowing And Investment Is Necessary. While Serving As An International Financial Center The Region Also Has To Facilitate The Growth Of Services For Managing Global Portfolios, Cross Border Tax Implications, International Financial Risk Management And International Investment Banking Services Etc.

London, New York And Singapore Are Three Major International Financial Centers. Other International Financial Centers Are Paris, Frankfurt And Tokyo. The Financial Centers From The Emerging Markets Are Shanghai International Financial Center And Dubai International Financial Center.

IV. International Financial Center And India - Regulations:

Regulatory Environment In India Places Many Restriction On Flow Of International Fund In And Out Of Country. These Restrictions Include Incomplete Capital Account Convertibility, High SLR (Statutory Liquidity Ratio) Requirement For Banks And Restrictions On FII (Foreign Institutional Investment). Thus, Under Current Regulatory Environment It Is Feasible To Establish An International Financial Center Only In A Special Economic Zone.

The Section 18 Of The Special Economic Zone Act (2005) Permits The Central Government To Approve Establishment Of International Financial Center In A Special Economic Zone With A Rider That Not More Than One International Financial Center Should Be Permitted In Country. SEZ Act Also Offers Provision Of Exemption From The Securities Transaction Tax Levied Under Section 98 Of The Finance Act, 2004, In Case Taxable Securities Transactions Are Entered Into By A Non-Resident Through An International Financial Center.

Department Of Economic Affairs, Ministry Of Finance, Through Its Notification In January 2015 Informed That Capital Market Activities In An International Financial Services Center Would Be Allowed Under SEBI And SEBI Will Issue Separate Set Of Guidelines To Facilitates Various Capital Market Operating Activities Including Stock Exchanges, Merchant Banking Services Mutual Funds Etc In An International Financial Center. SEBI Has Since Then Issued The 'SEBI (International Financial Services Center) Guidelines – 2015'.

Reserve Bank Of India, In Its Notification Issued In March 2015, Also Has Permitted Treatment Financial Entities Established In An International Financial Center (Permitted And Approved By Central Government) To Be Treated As Person Resident Outside India And Permitted To Conduct Operations In Such Foreign Currencies As Concerned Regulatory Authorities May Determine.

IRDA Has Also Issued Regulatory Provision For Permitting Insurance Services Under 'IRDA (International Financial Services Center) Guidelines – 2015'

Here, It Is Important To Point That Shanghai International Financial Center And Dubai International Financial Centers Themselves Are Located In Special Economic Zones In Their Respective Countries.

V. Establishment Of International Financial Center In India:

For Establishing / Creating A Successful International Financial Center In A Region Following Are Key Success Factors/ Requirements:

- i. An Extremely Good Connect With National And International Corporate, Financial Institutions And Related Entities.
- ii. High Quality Human Capital Holding Expertise In Finance, Quantitative Finance And International Securities And Business Legislations.

- iii. Extremely Good Telecommunication And Internet Infrastructure With Round The Clock Connectivity To Rest Of The World.
- iv. Sophisticated Information Technology Capabilities For Building And Maintaining Technological Trading And Fund Transfer Platforms
- v. Open Financial System Well Supported By Required Legislations For Developing And Promoting Varied Money Market And Capital Market Operations At International Financial Services Center.
- vi. The Location Of The International Financial Center Also Has To Be At A Strategic Location That Can Boost Of Good Quality Life.

Many Of These Critical Success Factors Are Available At Mumbai Which As Discussed Earlier Is Already The Existing Financial Hub Of The Country. Mumbai Is Already The Head Quarter Of Many National And International Companies, Banks And Financial Institutions, It Is Also Head Office Of Important Regulators Like RBI And SEBI.

On Virtue Of Being The Financial Hub Of The Country, Mumbai Also Has High Quality Finance, Internationalfinance And Legal Professionals And Firms. Mumbai Also Has The Large And Established Stock And Commodity Exchanges In The Country. The Telecommunication Connect Of Mumbai With The Rest Of The World Is Also Extremely Good. Hence, All Basic Required Parameters Have Been Available In Mumbai. The Required Legislative Amendments, Introduction Of Guidelines For Entities Establishing Their Operations In An International Financial Center Were Also Made By Respective Regulators (RBI, SEBI And IRDA). Mumbai Also Has Been A Strategic Center For Financial Operations.

In Spite Of All These Advantages The International Financial Center Of The Country Was Declared And Established In Gandhinagar – Gujarat. GIFT City (Gujarat International Finance Tec-City) Is Being Built On 359 Hectares (886 Acres) Of Land. Its Main Purpose Is To Provide High Quality Physical Infrastructure So That Finance And Tech Firms Can Relocate Their Operations From Existing Hubs Like Mumbai, Bangalore And Gurgaon As These Centers Have Become Very Expensive. The Idea Of Establishing The GIFT City Was Floated For The First Time During The Vibrant Gujarat Summit In 2007. The GIFT City Started Basic Operations In March 2015. Many National And International Banks Are Starting Their Operations In GIFT City And NSE And BSE Have Also Entered In To MOU's.

Incidentally, 2007 Was Also The Year When High Powered Expert Committee Had Submitted Its Report On 'Making Mumbai An International Financial Center'. Proposal To Set Up IFSC At Bandra-Kurla Complex Area Is Pending Till Date. In Spite Of Precedent Whereby Sate Bank Of India Had Opened Its Offshore Business Unit (OBU) In SEEPZ (Santacruz Electronics Export Processing Zone) In The Year 2003 No Serious Efforts Have Been Made To Create A SEZ In Suitable Area In Mumbai To Facilitate International Financial Center.

Further, A Discussion Is In Offing That It Does Not Make Sense To Have More Than One International Financial Services Center In The Country. Global Precedents Are Being Quoted To Justify The Same By Arguing That Most Countries Have Been Able To Accommodate And Promote Only One Major International Financial Center – London (U.K.), New York (USA), Frankfurt (Germany) Paris (France), Dubai (UAE), Tokyo (Japan) Etc. \

VI. International Financial Center – Location Perception Study:

A Survey Was Conducted To Understand Perception Of Management Professional Regarding The Location For Establishment Of. Sixty- Five Responses From Mainly Western India Were Received. Following Are The Results Of Survey:

▪ The Key Requirements Of A Region For Establishing An International Financial Centre:

44.3% Of The Respondents Felt That The Key Requirement For Identifying A Region As Base Of IFC Should Be That Should Be Able To Offer High Quality Human Capital That Holds Expertise In Finance, Quantitative Finance, International Securities And Business Legislations.

23 % Felt That Region Should Be A Major Base Of National And International Corporate, Financial Institutions And Related Entities.

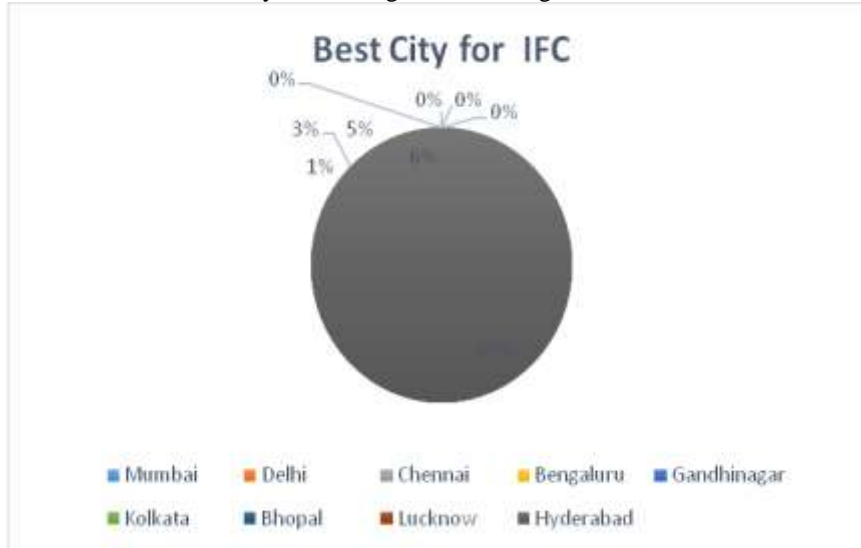
13.1% Of Respondents Felt That Region Should Be A Strategic Location With Good Domestic And International Connect

Around 9.8% Percent Felt That Region Should Be Able To Offer Quality Life Experience.

Around 9.8% Respondents Felt That Region Should Have Sophisticated Information Technology Capabilities For Building And Maintaining Technological Trading And Fund Transfer Platforms.

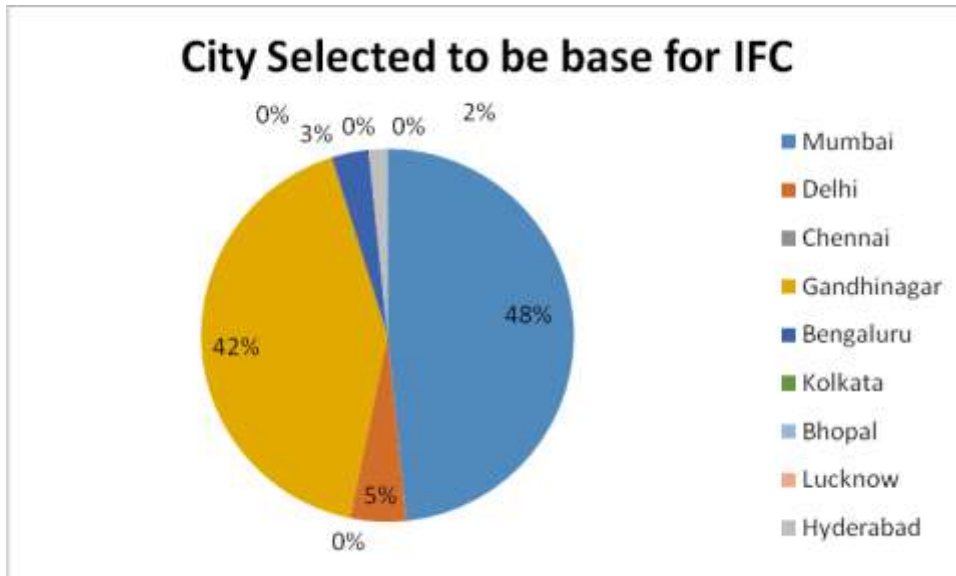
▪ **City In India That Is Best Suited To Be Base For International Financial Center:**

85% (55) Of The Respondents Felt That Mumbai Was The Best City To Become As Base For International Financial Center. This Was Followed By Gandhinagar – 6%, Bengaluru – 5%, Chennai – 3% And Delhi 1%.



▪ **Awareness Regarding The City In India That Has Been Selected By Government Of India To Be Base For International Financial Center:**

Government Of India Has Identified GIFT City At Gandhinagar To Be A Base For IFC. However, Only 42% Of The Respondents Were Aware Of This Fact.



VII. Discussion Points And Conclusion:

An International Financial Center Just Does Not Need Infrastructure. It Also Requires Finance Tradition And Strategic Location. Here Following Points In Favour Of Mumbai Are Relevant:

- i. Mumbai Has Carved Niche For Itself In Its Excellence In Commerce, Trade And Financial Flow.
- ii. Mumbai Is Already A Mega Financial Hub Of The Country And Has Tradition Of Dealing In Varied Categories Financial Operations For More Than A Century Now.
- iii. Most Of The Large Corporate In India Have Their Head Offices In Mumbai
- iv. Mumbai Is The Biggest Contributors To National GDP And Taxes
- v. Mumbai Offers High Quality Processes And Technology.
- vi. Mumbai Also Has High Quality Finance And Legal Professionals And Firms

However In Order To Ensure That Mumbai Continues To Flourish As Financial Heart Of Country And Hub For The Rest Of The World To Connect With India In Regard To Flow Of Funds, It Is Important To

Ensure That Political Decision To Move This As Fast Track Economic Agenda Are Taken As Soon As Possible. Otherwise There Is Chance That GIFT City Will Get A First Mover Advantage Over Mumbai.

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