

One number, please

A unique identity number that integrates an individual's PAN card, demat and bank accounts is the answer

The new unique ID should be designed to establish links between investors and identify people acting in concert

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Convergence of identity in India continues to be a distant dream. We have passports, voter identity cards, PAN cards, bank account numbers, and driving licences issued to us by various governmental organisations but there is no integration in these IDs.

In the capital markets, two IDs already exist—the DP client ID (DPID) and the Unique Client Code (UCC). But the system itself allows multiple IDs. An investor can get several DPIDs by having several demat accounts and can obtain UCCs from different brokers. Worse, laxity in Know Your Client norms has allowed a huge number of benami accounts.

When these IDs failed, Sebi decided to introduce another unique ID for investors: MAPIN. But the MAPIN, which also used fingerprints of applicants, was suspended in June 2005 after a review committee found the design of the system unfriendly and also inappropriate in terms of establishing links between different investors. Sebi is now considering a proposal to reintroduce the MAPIN for trades of over Rs 5 lakh. The other leg of the market, the banking system, too faces this problem of non-integration. Any payment of above Rs 20,000 has to be made only by cheque. But this can't establish benami accounts, audit trails or identify ultimate beneficiaries. Many people operate multiple accounts and do not disclose them in their IT returns. The capital market definitely needs a unique investor ID. This ID should be created using the time-tested Dedupe software. The application form should incorporate the existing data as also seek additional information. For example, besides DPID and UCC, the new ID should compulsorily require a PAN, irrespective of the size of the investment.

It is equally important that each investor furnishes details of the bank account(s) he will use for capital market trades.

The new unique ID should be designed to help establish links between investors and thereby establish concerted trades within a group of persons (relatives and associates). Most manipulators use relatives, associates, friends and investment companies as fronts or simply operate benami accounts.

Tracking market miscreants won't be the only benefit. The new ID would more importantly help create a comprehensive database of investors. It would tell us the number of investors (and investing households) in India. Currently, estimates by different bodies range from 8 million to 40 million, though in reality there are only about 8 million demat accounts. We also do not know how many of these are "small investors", their geographical distribution, income profiles and investing habits.

In the absence of this data, formulating policies, products and services for Indian investors is a major challenge. Even simple communication is difficult because the targeted audience is not defined.

In addition, the unique ID would enable Sebi to identify investors who have taken large exposures in the market and/or who are trading through multiple brokers. The database would also help the surveillance system to identify links between investors in manipulative trading. Instead of being reactive (i.e. after a fraud is reported or a deal appears suspect), the new system would facilitate a proactive investigation.

Investors too would benefit. The new ID would allow them to invest and trade through a single ID instead of having to quote different ID numbers and fill detailed forms. More importantly, it will give honest investors their rightful share in the market.

The new unique ID should be made mandatory for all investors and across all markets (primary and secondary) and across all forms of instruments (equity, debt, derivatives and mutual funds). There should be no cut-off limit because it would exempt a large body of investors, thereby preventing the creation of a comprehensive database of investors. It would also tempt manipulators to execute trades below the cut-off limit.

A last word—ultimately, the government should seriously consider the creation of a national citizen ID on the lines of the social security number in the US.

BOX

A new ID

WHAT : Should integrate all financial data about investor

WHY : Not possible to track manipulative trading or benami investments by just DP client ID and Unique Client Code
MAPIN too of no help.

HOW : Transactions to be only through specified bank and demat accounts.