# RBI's Retail Direct Scheme



## Why in News

Recently, the **Reserve Bank of India (RBI)** announced the **'RBI Retail Direct' Scheme.**

> In February 2021 RBI **proposed to allow retail investors to open gilt accounts** with the central bank to invest in **Government securities (G-secs)** directly.

## Key Points

- **About:**
  - Under the scheme, **retail investors (individuals) will have the facility to open and maintain the 'Retail Direct Gilt Account'** (RDG Account) with the RBI.
    - **Retail Investor** is a non-professional investor who buys and sells securities or funds that contain a basket of securities such as mutual funds and **Exchange Traded Funds (ETFs).**
    - **A Gilt Account** can be compared with a bank account, except that the **account is debited or credited with treasury bills or government securities instead of money.**
  - RDG accounts can be opened through an **online portal** provided for the purpose of the scheme.
  - The online portal will give registered users access to primary **issuance of G-secs and access to Negotiated Dealing System-Order Matching system (NDS-OM).**

    The RBI introduced the **NDS-OM in August 2005.** It is an **electronic, screen based, anonymous, order driven trading system** for dealing in G-secs.
  - It is a **one-stop solution to facilitate investment in G-secs** by individual investors.

    RBI seeks to **democratize the ownership of government debt securities** beyond banks and managers of pooled resources such as mutual funds.

- **Current G-Sec Market:**
  - The G-sec market is **dominated by institutional investors** which are large market actors such as banks, mutual funds and insurance companies.
    - These **entities trade in lot sizes of Rs 5 crore or more.**
  - So, there is **no liquidity in the secondary market for small investors** who would want to trade in smaller lot sizes.
    - The **primary market** is where securities are created, while the **secondary market** is where those securities are traded by investors.
  - There is **no easy way for them to exit their investments.** Thus, currently, direct G-secs trading is not popular among retail investors.
- **Significance:**
  - **Improved Ease of Access:**
    - It will make the process of G-sec **trading smoother for small investors** therefore it will **raise retail participation in G-secs** and will **improve ease of access.**
  - **Facilitate Government Borrowings:**
    - This measure together with relaxation in mandatory Hold To Maturity (securities that are purchased to be owned until maturity) provisions **will facilitate smooth completion of the government borrowing programme in 2021-22.**
  - **Financialise Domestic Savings:**
    - Allowing direct retail participation in the G-Sec market will **promote financialisation of a vast pool of domestic savings** and could be a game-changer in India's investment market.
- **Other Measures Taken to Increase Retail Investment in Government Securities:**
  - **Introduction of non-competitive bidding** in primary auctions.
    - **Non-competitive bidding** means the bidder would be able to participate in the auctions of dated government securities without having to quote the yield or price in the bid.
  - **Stock exchanges to act as aggregators** and facilitators of retail bids.
  - **Allowing a specific retail segment** in the secondary market.

**Government Security**

- A G-Sec is a **tradable instrument** issued by the Central Government or the State Governments.
- It **acknowledges the Government's debt obligation.** Such securities are **short term** (usually called treasury bills, **with original maturities of less than one year-presently issued in three tenors, namely, 91 day, 182 day and 364 day)** or **long term** (usually called Government bonds or dated securities with **original maturity of one year or more).**

- In India, the **Central Government issues both treasury bills and bonds or dated securities** while the **State Governments issue only bonds or dated securities**, which are called the State Development Loans (SDLs).
- G-Secs **carry practically no risk of default** and, hence, are **called risk-free gilt-edged instruments.**

    **Gilt-edged securities** are high-grade investment bonds offered by governments and large corporations as a means of borrowing funds.

**Source: IE**