



RBI's Retail Direct Scheme

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Why in News

Recently, the Prime Minister has launched the **Reserve Bank of India (RBI)- Retail Direct Scheme to open up the Government bond market for the retail investors.**

Key Points

- **About:**

- 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.**
- 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.
- The scheme places India in a list of select few countries offering such a facility.

- **Aim:**

The move is **aimed at diversifying the government securities market**, which is dominated by institutional investors such as banks, insurance companies, mutual funds and others.

While **foreign portfolio investors** were allowed to invest in G-secs, their holding is around 2-3% in the overall market.

- **Scope:**
 - It offers a portal avenue to invest in **Central government securities, treasury bills, State development loans and sovereign gold bonds.**
 - They can invest in primary as well as secondary market government securities markets.
 - Negotiated Dealing System-Order Matching Segment (NDS-OM)** means RBI's screen based, anonymous electronic order matching system for trading in Government securities in the secondary market.
- **Significance:**
 - **Building an Atmanirbhar Bharat:**

So far, in the government securities market, small investors class, salaried class, small traders **had to invest through banks and mutual funds in an indirect manner.**
 - **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.**
 - The secondary market is the **market where investors buy and sell securities they already own.**
 - **Primary market** deals with new securities being issued for the first time.

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: TH