# 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**

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