



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