

Retail Direct

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In news: RBI will soon allow retail investors to open G-Sec accounts

Key updates

- In a major structural reform, The Reserve Bank of India (RBI) will soon allow retail investors to open Gilt or G-Sec accounts with the central bank, a move that will help deepen bond markets in India.
- RBI also announced that it will soon issue guidelines for this process
- The Central Government and the Reserve Bank have taken several measures to encourage retail investment in Government Securities.
- These include introduction of non-competitive bidding in primary auctions, permitting stock exchanges to route primary purchases and allowing a specific retail segment in the secondary market
- In continuation of these efforts, **it is proposed to provide retail investors with online access to the government securities market – both primary and secondary** – directly through the Reserve Bank ('Retail Direct').
- The platform will be called "Retail Direct"
- According to RBI, this will broaden the investor base and provide retail investors with enhanced access to participate in the government securities market.
- This is a major structural reform placing India among select few countries which have similar facilities.
- This measure together with HTM relaxation, will facilitate smooth completion of the Government borrowing programme in 2021-22.

Who is the retail investor?

The retail investor is here defined as an individual investor who purchases securities directly (including through brokers who trade on the basis of instructions from the individual investor or by investing in 'managed accounts' where the account manager makes the buy/sell decision on behalf of individuals).

SEBI law defines retail individual investors as an investor who applies or bids for securities of or for a value of not more than Rs 2,00,000 in an IPO and buys or holds shares worth less than Rs 2,00,000 in a stock. There is no such limit in commodities to define a retail investor.

What is G-Security?

- A Government Security (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) 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.