RBI RETAIL DIRECT INVESTMENT SCHEME: MECHANISM, PROS AND CONS

Abstract

The recent launch of RBI Retail Direct Investment Scheme is one of the critical steps taken by the government to reform the prevailing debt market in India. The scheme will not only benefit the retail investor but also facilitate the Central Bank of the country to perform its responsibilities efficiently by regulating the trading in Government securities. This article discusses the scheme and its advantages to the investors. It also highlights the limitations of the scheme. The trading of Government securities through online platform is a significant breakthrough for retail investors as they can invest in Government securities in easy, direct, safe and low cost manner.

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INTRODUCTION

The RBI Retail Direct Scheme was launched by Prime Minister Mr. Narendra Modi by virtual mode on 12th November 2021. The scheme was announced by RBI in its monetary policy of February 2021.The objective of the scheme is to provide safe, secure and direct platform to investors to deal in government securities. It is a significant milestone in facilitating the market of Government securities (G-Sec) by simplifying the process of investment. The following government securities are covered under the scheme:

1. Government of India dated securities
2. Treasury Bills (T-bills)
3. State Development Loans (SDL)
4. Sovereign Gold Bonds (SGB)

OBJECTIVES

This article aims to provide an overview of the newly launched "RBI Retail Direct Scheme". It also highlights the advantages and limitations of the scheme.

RESEARCH METHODOLOGY

This article is based on secondary data taken from RBI website, newspaper articles and other published resources.

HOW THE SCHEME WORKS?

The scheme allows retail investors to buy and sell Government securities online through the portal *rbiretaildirect.org.in.* The investors can invest in both primary and secondary markets. The procedure for dealing in the G-secs through online portal is explained in the following paragraphs.

1. Registration on the online portal

In order to register on the online portal, investors can fill the online form by authenticating the information through OTP received on the registered email ID and mobile number. Once the registration is done, 'Retail Direct Gilt (RDG) Account' can be opened singly or jointly and details will be shared via email/SMS. Retail investors can also open and maintain RDG account with RBI. However, to open RDG the retail investor must comply with the following requirements:

a) Presence of rupee saving bank account

b) Valid PAN issued by the Income tax authorities

c) Valid email id.and mobile number

d) Valid Aadhaar card, voter card for KYC norms

Furthermore, non-resident retail investors are eligible under the scheme if they are eligible to invest in Government securities under Foreign Exchange Management Act, 1999.

2. Buying and Selling of G-sec

After the RDG account is opened, the retail investors can buy or sell the G-secs in both primary and secondary market.

2.1 Trading G-Sec in primary market

The participation and allotment of securities will be as per the terms and conditions laid down in the scheme for participation in the primary auction of G-Sec and guidelines for sovereign bond issue. Investors are allowed to make one bid per security. Upon submission of the bid, the amount payable will be displayed on the screen. The payment to aggregator will be debited from the account of the investor through banking / UPI facility linked to the account. This scheme allows investors to use ASBA facility wherein the required funds will be blocked in the linked account of the investors at the time of submission of the bid but will be debited when securities are allotted. In case no securities are allotted, refund will be granted within specified timelines. On the contrary, securities are credited to the RDG account of the investor on the day of settlement.

2.2 Trading in G-sec in secondary market

Trading in the secondary market is accessible through the link "NDS-OM (Negotiated Dealing System-Online Matching) secondary market" available on the online portal. NDS-OM is the screen based, anonymous electronic order matching mechanism for Government securities trading in the secondary market. To buy Government securities, the investor should transfer funds to the designated account of CCIL before the trading hours or during the day. Based on the funds transfer/success message, buying limit will be given for placing "buy" orders. The excess funds lying to the credit of investor will be refunded at the end of the trading session. The securities bought will be credited to the RDG account of the investor on the settlement day. To sell Government securities, the securities identified for sale will be blocked at the time of placing the order till the settlement of the trade. Proceeds from sale are credited to the linked account of investor on the settlement day.

The objective of the scheme is to provide safe, secure and direct platform to investors to deal in government securities. It is a significant milestone in facilitating the market of Government securities (G-Sec) by simplifying the process of investment

BENEFITS OF THE SCHEME

The scheme offers numerous advantages to the investors including the following:

1. There are no charges for opening and maintaining the RDG account. There is no expense ratio as in mutual funds. Investors pay only the payment gateway fees. Further, nomination facility is available on this account
2. There are no charges for submitting bids in the primary auctions.
3. Account statement will be available on the online portal which will reflect the transaction history and balance position of securities holdings in the RDG account. Similar to saving account, all transaction alert will be provided using email/SMS.
4. An Investor can obtain loan against the securities held in RDG account.
5. Government securities held in the RDG account can be gifted by retail investor to other retail investors.
6. The Public Debt Office of RBI, Mumbai will handle/resolve any query or grievances related to the scheme.
7. The minimum investment for T-bills, Government bonds and SDL is Rs 10,000 which makes them affordable for the small retail investors.
8. It is possible to buy sovereign gold bonds in the secondary market without having a DEMAT account through this scheme.
9. The scheme offers sufficient flexibility to the investors as they can choose bonds as per their cash flow requirement.

THE OTHER SIDE OF THE STORY

The scheme is not free from limitations. The interest rate of small savings instruments (SSIs) pose the biggest challenge to this scheme. The interest rates of SSIs are based on a formula, suggested by the Shyamala Gopinath Committee in 2016. It is linked to the yields of Government securities. Although yields have hardened over the last six months, interest rates of the SSIs have been left unchanged. The interest rates offered by Government securities is much lesser as compared SSIs. This makes SSIs far more attractive than investing in Government securities directly.

Another issue related to this scheme is the liquidity. It is hard to navigate the securities market. If the investor wants to sell securities, there has to be a buyer. It is difficult to get buyer for Government bonds unless the Government makes them attractive. In that case, it will be more of a buy and hold security.

Though there is no default risk on Government securities, they are prone to interest rate risk. When interest rates are rising, these bonds can suffer sharp mark -to -market losses if sold before maturity.

Gilt mutual funds pose threat to this scheme as amateur investors will prefer diversified portfolio managed by experienced fund managers to deal with mark -to -market volatility.

There is no tax relief on interest income from Government bonds in contrast to debt mutual funds which offer tax advantages

CONCLUSION

There is no doubt that this scheme will provide an excellent opportunity to retail investors to deal in Government securities, bonds etc. This scheme is first of its kind to offer investment in Government schemes in an easy and direct manner. It will also bring retail trading of Government bonds under its purview which was earlier handled by SEBI. Understanding the criticality of G-Sec market, this move will enable RBI to discharge its responsibilities such as authority for monetary policy, regulator of interest rate and payment and settlement systems, Government debt manager and many more. The success of the scheme depends how the Government will keep the scheme attractive for the investors and the extent of liquidity offered by these bonds at the time of selling. MA

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