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Retail Participation in Government Securities Market - A Potential Game Changer for Vision Viksit Bharat

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The Clearing Corporation of India Ltd.

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Vardhana Pawaskar and Payal Ghose[£]

The government securities market plays a pivotal role in ensuring economic stability, fostering growth and providing a reliable foundation for the broader financial system. For an individual investor, it also provides one of the safest instruments for diversification of savings. Our paper discusses the focused policy measures to enhance retail participation in the Indian government securities market through the lens of financial inclusion. In recent years, the widespread adoption of digital financial services and the allure of quick returns have led many small savers, particularly vulnerable groups like senior citizens, to invest in risky products that have exposed them to the potential loss of their entire investments. To enhance investor protection and offer greater flexibility, the policy makers have removed barriers for common citizens to access one of the safest investment avenues in the Indian financial market. The paper shows how leveraging of technology has eased entry of small investors into a segment of the financial market that had been hitherto restricted to institutional participants. Small investors in India now have a safe investment option at their finger-tips that essentially empowers them to become investors and direct participants in Viksit Bharat - Vision 2047.

JEL Classification: G21, H29, H30, H63, H74, O16

Keywords: Financial Inclusion, Retail Investment, Government Securities

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1. Backdrop

The 'RBI Retail Direct' scheme launched by the Reserve Bank of India (RBI) on July 12, 2021 enables retail / individual investors to directly access the Indian government securities (G-Sec) market. The scheme is the outcome of focused government efforts to democratise the Indian G-Sec market by easing entry of small investors into a segment of the Indian financial markets that had been restricted to institutional participants. Individuals can now easily participate in the primary auctions as well as the secondary market segments of the Indian G-Sec market through the portal https://rbiretaildirect.org.in launched on November 12, 2021 and the mobile application launched on May 28, 2024. The Indian G-Sec market is poised to gradually transform from an institutional market to one actively supported by retail participation that will be able to sustainably finance India's journey to a developed nation "Viksit Bharat" by 2047.

2. Introduction

Any financial investment is in essence a loan from an investor to the issuer. Financial instruments facilitate the flow of capital from savers such as individuals and households to borrowers that may be private corporates or government entities for investment in new ventures, expansion of operations and creation of jobs as well as social infrastructure leading to economic growth. The inherent risk for the investor lies in (i) the ability of the issuer to repay the loan along with a compensation for the borrowed funds; and (ii) the ability of the investor to exit the investment without incurring a loss. Financial investments generate returns based on the degree of risk i.e., the uncertainty borne by the investors for parting with their money. These returns can be in the form of a share in profits for an indefinite period (till the security is held by investor) as in the case of equity instruments or regular interest payments at pre-determined intervals along with the return of original amount invested at end of the pre-determined maturity period in the case of debt instruments.

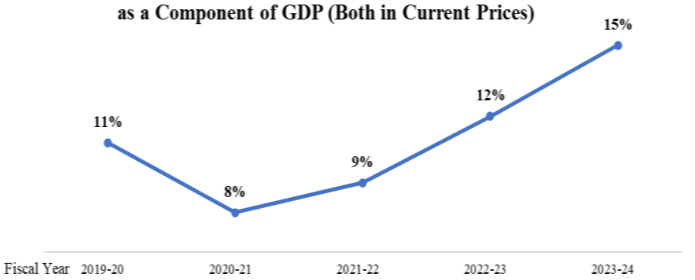
Financial markets enable the trading in various financial instruments facilitating the exchange and reallocation of capital between various types of investors and borrowers. From a macro and regulatory perspective, financial inclusion also includes removal of barriers that prevent individual citizens from participating freely in the country's financial markets and essentially empowering savers to become investors / participants in the nation's growth regardless of their income or size of investment.

In recent years, India's financial ecosystem has been transformed in terms of ease of access and overall service delivery based on the JAM trinity of Jan dhan bank accounts, single proof of identity – Aadhaar, and individual Mobile phone numbers. The government through RBI has focussed on leveraging evolving technology to use the bank accounts, digital identity and mobile number combination to expand the reach of RBI-regulated financial markets to the common public, in particular, through the RBI Retail Direct and FX-Retail platforms. The RBI Retail Direct platform offers Indian individuals the choice of directly investing in some of the safest financial instruments in India without depending on any intermediaries.

3. Importance of the Indian G-Sec Market

Government Final Consumption Expenditure (GFCE) has been a key driver of India's economic growth in recent years, particularly, since the outbreak of the Covid-19 pandemic as can be seen in Chart 1. Despite the ballooning of the fiscal deficit from ₹9.34 lakh crore in FY 2019-20 to ₹18.18 lakh crore in FY 2020-21, government stimulus measures were critical for supporting and then nurturing the recovery of the economy following the multiple lockdowns that brought economic activities to a near standstill.

Chart 1: Government Final Consumption Expenditure as a Component of GDP (Both in Current Prices)



Source: Compiled by Authors from RBI's Database on Indian Economy

Market borrowings are the primary source of funding the governments' expenditure requirements in India - for both the Central and the State Governments as seen in Table 1 given below. A G-Sec essentially implies a debt instrument or bond issued either by the Central Government of India or the State Governments which is tradeable in nature. The Central Government issues long term bonds or "Dated Securities" (CGS) and short-term Treasury Bills (T-Bills) which are instruments with original maturities of less than one year. The State Governments only issue bonds known as the State Development Loans (SDLs) or State Government Securities (SGS). All securities in the Indian G-Sec market are variants of these three instruments. RBI acts as the debt manager for both the Central Government of India and the State Governments. G-Secs are issued and redeemed in units of face value of ₹100. CGS and SGS pay interest or coupons on semi-annual basis i.e., every six months until the date of their maturity.

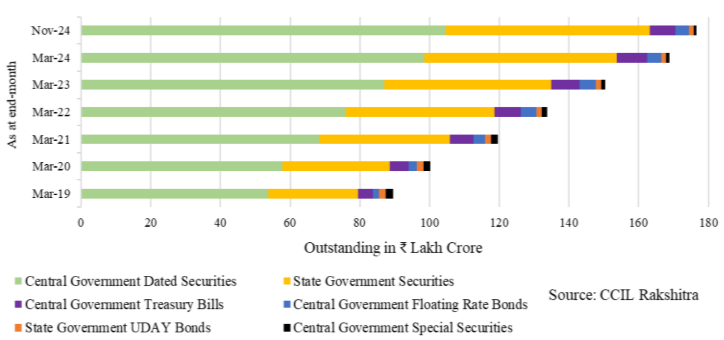
Table 1: Share of Market Borrowings in Funding of Fiscal Deficit

Central Government				State Governments			
FY	Gross Fiscal Deficit (in ₹ Lakh Crore)	Market Borrowings (in ₹ Lakh Crore)	Share of Market Borrowing (%)	FY	Gross Fiscal Deficit (in ₹ Lakh Crore)	Market Borrowings (in ₹ Lakh Crore)	Share of Market Borrowing (%)
2019-20	9.34	4.74	51%	2019-20	5.25	4.97	95%
2020-21	18.18	10.33	57%	2020-21	8.05	6.63	82%
2021-22	15.85	7.04	44%	2021-22	6.55	5.09	78%
2022-23	17.38	11.08	64%	2022-23	7.22	5.43	75%
2023-24	17.35	11.80	68%	2023-24 (RE)	10.37	7.83	75%
2024-25	16.13	11.63	72%	2024-25 (BE)	10.39	8.21	79%

Source: Compiled by Authors from RBI's Database on Indian Economy and State Finances: A Study of Budgets of 2024-25

The increased borrowing by the Centre and the States in recent years has resulted in commensurate jump in the size of outstanding G-Secs. The ability of RBI to successfully manage the substantial jump in government borrowings at low costs without disrupting the overall financial system of the country is a testimony to the efficiency of the Indian G-Sec market. As can be seen in Chart 2, Dated CGS comprise the largest segment of the outstanding securities.

Chart 2: Composition of G-Sec Market - Outstanding Securities



While the primary market enables direct flow of capital from savers to issuers for their growth and operations, the secondary market facilitates continuous reallocation of capital within the economy by enabling the buying and selling of existing securities. The secondary market for G-Secs is one of the largest segments of the domestic financial markets with the daily turnover of ₹1.34 lakh crore surpassing the combined ₹1.01 lakh crore equity market turnover of the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) (November 2024). It may be noted that the G-Sec market is largely institutional in nature while there is a significant share of direct participation from retail participants in the equity market.

4. Overview of G-Sec market

The G-Sec market like any other market segment has the primary issuance segment where new instruments are purchased directly by investors from the issuer, various types of instruments, an active secondary market that facilitates purchase and sale of these instruments and a wide range of market players.

4.1. Primary Market

Indian G-Secs are issued through auctions conducted by RBI on its Core Banking Solution (E-Kuber) electronic platform. These auctions follow a market-based price discovery process. India has one of the most transparent issuance mechanisms in the world where an advance calendar of planned borrowings through auctions is issued for market participants including details not only of the dates of auction and amounts to be auctioned but also near security-level information in case of dated CGS. A half-yearly indicative calendar of issuances is notified at end-March and end-September for dated CGS containing details on amount to be sold, tenor of the securities to be auctioned and the time of auctions. Advance quarterly calendars are notified for the issuance of T-Bills and SGS. A yield-based auction is conducted when a new G-Sec is issued. The coupon rate paid over the life of the security is fixed in this auction. Subsequent auctions for resale of the security are done through price-based auctions.

4.2. Types of G-Secs

In India, a wide variety of G-Secs are issued to cater to the diverse investment horizons and risk appetites of the investors. The main types of G-Secs are:

A. Issued by the Central Government of India:

I. **Short-Term Instruments -** Maturing within one year of issue these include:

i. **Treasury Bills or T-Bills**: T-Bills are issued at a discount to face value (₹100) and are redeemed at par or ₹100 at maturity. RBI conducts weekly auctions of T-Bills for 3 maturities - 91 Days, 182 Days, 364 Days. T-Bills are also called zero coupon securities as no interim coupon/interest payments are made over their life.

ii. **Cash Management Bills (CMBs):** These are T-bills maturing within 91 days which are occasionally issued on behalf of the Government of India.

II. **Long-Term Instruments -** Long term bonds issued by the Government of India are referred to as dated securities. These have maturities ranging from one to fifty years and comprising of the most liquid segment of the Indian G-Sec market, these include:

i. **Fixed Rate Bonds** - Most dated CGS in India are issued as fixed rate bonds i.e., they pay a fixed coupon over their entire life on a semi-annual basis.

ii. **Floating Rate Bonds (FRBs)** - These pay interest at a variable coupon rate that is reset at pre-announced intervals.

iii. **Special Securities** - The Government of India may issue bonds as compensation in lieu of cash subsidies in the form of Food Bonds, Oil Bonds or Fertilizer Bonds.

iv. **Sovereign Green Bonds (SGrBs)** - These bonds are issued to mobilize resources exclusively for funding green infrastructure projects reducing the carbon intensity of the economy.

v. **Sovereign Gold Bonds (SGBs)** - These bonds designed to enable retail investors to switch from physical to digital gold holdings are denominated in units of one gram of gold and multiples thereof.

III. **STRIPS** - These are zero coupon securities created by breaking down the future cash flows of a regular fixed coupon CGS i.e., each semi-annual coupon payment and the final redemption value can be traded as separate/independent securities in the secondary market.

IV. **Savings (Taxable) Bonds / Floating Rate Savings Bonds (FRSBs)** - Specially issued for retail investors, these bonds have a maturity of 7 years and bear a floating rate of interest which is reset every 6 months. While the minimum amount of investment is ₹1,000 (face value) and in multiples thereof, these bonds are not tradable in the secondary market.

B. Issued by the State Governments:

I. **State Development Loans (SDLs) or State Government Securities (SGS)** - These bonds are issued for market borrowings by State Governments and Union Territories. While these are also semi-annual coupon (fixed) paying dated securities, they offer higher interest rates over CGS of comparable maturity.

II. **UDAY Bonds** - These high-yield bonds were issued by State Governments for the financial turnaround of their state power distribution companies (DISCOMs).

4.3. Secondary Market

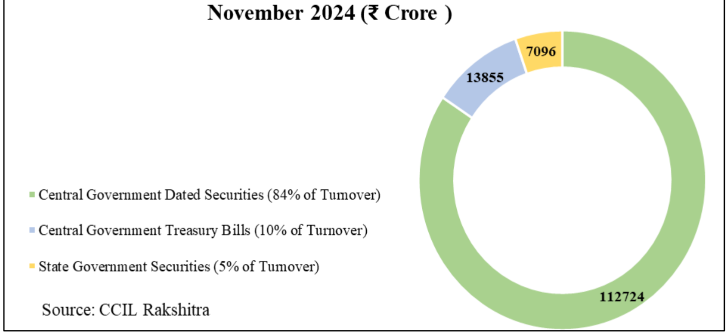
G-Secs in India provide investors with easy entry and exit options, supported by a world-class trading and settlement infrastructure. Majority of the secondary market activity takes place on RBI's Negotiated Dealing System-Order Matching (NDS-OM) anonymous screen-based order matching platform for G-Sec trading. This anonymity ensures a level playing field for all categories of participants leading to better and transparent discovery of prices. Over the Counter (OTC) or bilateral G-Sec trades have to be reported on NDS-OM within 15 minutes.

The Clearing Corporation of India Ltd. (CCIL) guarantees settlement of G-Sec trades by becoming a central counter-party (CCP) to every trade through the process of novation, i.e., it becomes the seller for every buyer and the buyer for every seller. The securities and funds are settled on a multilateral netting basis under Delivery versus Payment System-III (DvP-III) netting and settlement through a simultaneous transfer of funds and securities to respective securities / current accounts.

4.4. Market Turnover

Secondary market trading as shown in Chart 3 is concentrated in the dated CGS, with SGS being preferred by buy-and-hold category investors on account of their higher yields.

Chart 3: Break-Up of Daily Turnover in G-Sec Market November 2024 (₹ Crore)



Source: CCIL Rakshitra

4.5. Participants

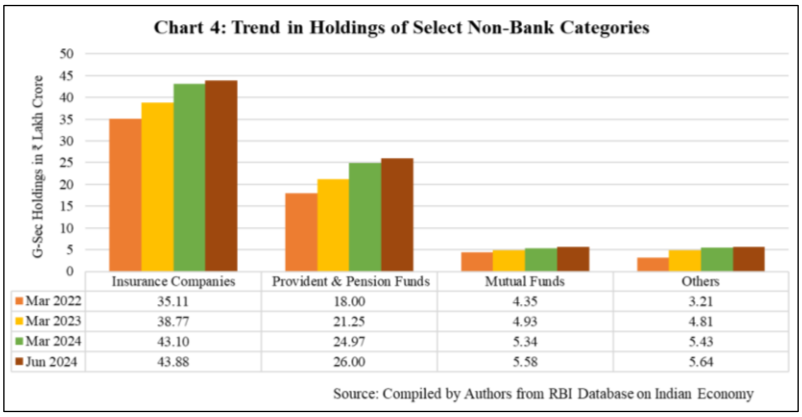
The Indian G-Sec market is traditionally a wholesale market dominated by domestic institutions, that is gradually being opened up for retail and foreign investors. Table 2 shows the changing mix of G-Sec holdings among different categories of participants.

Table 2: Categorywise G-Sec Holdings (Share in %)

Details/End-Month	Mar-22	Mar-23	Mar-24	Jun-24
Total (in ₹ Lakh Crore)	136.96	153.98	172.58	175.33
Commercial & Co-operative Banks	38.68	38.93	39.67	38.88
Insurance Companies	25.64	25.18	24.97	25.03
Provident & Pension Funds	13.14	13.80	14.47	14.83
RBI	10.61	9.16	7.86	7.65
Mutual Funds	3.18	3.20	3.09	3.18
State Governments	1.84	1.74	1.65	1.98
Corporates	1.70	1.92	1.73	1.79
Foreign Portfolio Investors	1.01	0.88	1.48	1.49
Financial Institutions	1.34	1.40	1.23	1.20
Non-Bank PDs	0.53	0.66	0.69	0.76
Others	**2.34**	**3.13**	**3.15**	**3.22**

Source: Compiled by Authors from RBI Database on Indian Economy
The category 'Others' comprises DICGC, PSUs, Trusts, Foreign Central Banks and Retail Participants such as HUF/Individuals etc.

While the direct share of retail holdings is increasing gradually, their role in the G-Sec market should also be considered in terms of their proxy holdings through institutional participants such as Mutual Funds, Provident & Pension Funds and Insurance Companies. Chart 4 shows the sequential growth in G-Sec holdings of these participants.



5. Retail Participation in Indian G-Sec Market

Given the increasing size and importance of the G-Sec market in the Indian economy, availability of a wider pool of investors is essential to enable the issuers - Central and State Governments - to keep the cost of their increasing funding requirements under control. At the same time, diversity in participants in terms of investment horizons and risk appetites is essential to address volatility in financial markets. For the Indian G-Sec market, regulatory focus has been directed towards expanding the role of small and retail investors with a relatively cautious approach towards opening up the market to foreign participants.

5.1. Measures for Retail Inclusion in G-Sec Market

Participation of retail investors in the G-Sec market has been a key focus area for the RBI and the Government ever since the financial market reforms were initiated in the early 1990s. These reforms have changed the overall structure of the Indian G-Sec market in terms of the issuance process, the trading and settlement infrastructure, and providing a clear legal base. The Indian G-Sec market has transitioned from a captive and illiquid segment of the financial system with administrated interest rates to a liquid market segment with transparent and efficient price discovery based on robust world-class market infrastructure. Along with the changes for the large institutional players, various measures were experimented with to give a boost to retail participation. Table 3 lists out some of these measures that were implemented by RBI until the launch of the RBI Retail Direct scheme in November 2021.

Table 3: Timeline of Measures to Boost Retail Participation

Date	Policy Measure
1996-2002	A system of satellite dealers (SDs) was put in place to distribute securities at retail level.
December 8, 2001	Non-competitive bidding (NCB) facility for bidding in G-Sec auctions was opened for smaller participants not maintaining a current account or an SGL account with RBI.
January 16, 2003	RBI permitted buying and selling of G-Secs through stock exchanges.
May 21, 2007	A separate odd-lot segment (Face value < ₹5 crore) was introduced on NDS-OM to encourage retail trading.
December 1, 2007	The Government Securities Act, 2006 and the Government Securities Regulations, 2007 came into force.
June 26, 2008	Multi modal settlement through commercial banks was introduced for smaller entities not maintaining a current account with RBI.
July 6, 2011	RBI extended the DvP - III facility to gilt account holders.
August 30, 2011	RBI's new authorisation policy mandated annual turnover targets as well as incentives for primary dealers (PDs) for retailing.
June 29, 2012	NDS-OM web module was launched to facilitate direct participation of retail and mid-segment investors.
February 29, 2016	Union Budger 2016-17 announced that RBI will facilitate greater retail participation in G-Secs through stock exchanges and access to NDS-OM trading platform.
July 28, 2016	RBI allowed Demat Account Holders of NSDL and CDSL to put through trades in G-Secs on the NDS-OM platform through their respective Depository Participant (DP) banks which were SGL Account Holders and a direct member of NDS-OM and CCIL. Subsequently, all transactions by retail entities of face value less than ₹1 crore entailed no settlement costs for that entity.
November 23, 2017	Specified stock exchanges were permitted to act as aggregators/facilitators for submitting investor bids in the non-competitive segment of primary auctions.
November 19/ December 3. 2018	NSE and BSE launched their web-based platforms for retail investors in G-Secs.
April 1, 2020	Updated Primer on G-Sec market was released on RBI website.
October 5, 2020	Request for Quote (RFQ) module was introduced on NDS-OM.
February 5, 2021	The 'RBI Retail Direct' facility was announced in the Statement of Developmental and Regulatory Policies.
Source: Compiled by Authors from CCIL Milestones, Union Budget documents and various RBI Notifications.	

Despite the various measures introduced by RBI, retail participation in the G-Sec market failed to take off due to reasons such as dependence on intermediaries like banks and PDs which was also often restricted by geographical constraints, lengthy process of account opening, lack of uniform charges as well as a general lack of awareness about G-Secs. Further, the competition from traditional fixed income products such as bank fixed deposits and Small Savings Schemes that were simpler to operate as well as offered tax incentives also acted as deterrents.

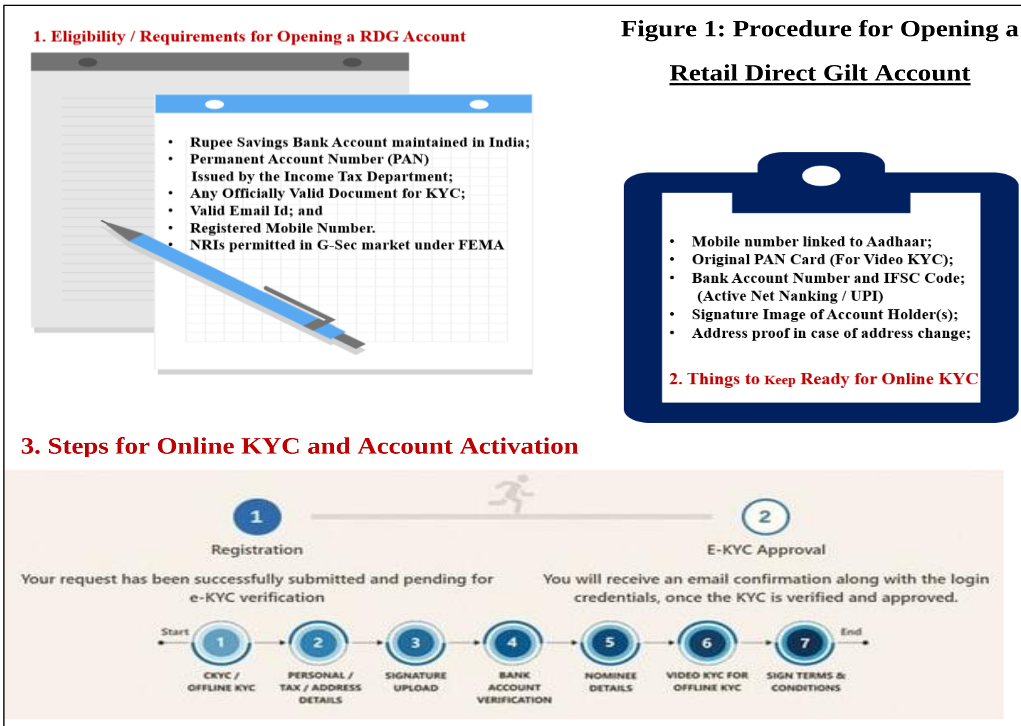
Increased financial literacy, along with technological advancements that have eased access to Indian financial markets through digital channels, have resulted in increased retail participation in recent years. This trend has gathered momentum since the pandemic with the standardisation of tax incentives on various financial instruments as well as increasing preference among investors for products where the returns are linked to market dynamics over traditional products with relatively inelastic returns and absence of easy exit options.

Taking note of the challenges faced in the implementation during its earlier attempts, as well as, the changing landscape of the Indian financial markets, RBI announced the decision to move beyond the aggregator model and provide retail investors online access to the G-Sec market - both primary and secondary - along with the facility to directly open their gilt securities account (‘Retail Direct’) with the RBI as part of its measures for ‘Deepening Financial Markets’ under the Statement on Developmental and Regulatory Policies announced on February 5, 2021.

5.2. RBI Retail Direct Scheme

The ‘RBI Retail Direct’ scheme has been planned as a one-stop solution to facilitate retail investment in G-Secs - both in primary auctions as well as secondary market trading segments. Leveraging the latest technology, the RBI Retail Direct scheme provides a safe, simple, direct and secured platform for retail investors to participate in the G-Sec market. With CCIL as the designated Aggregator / Receiving Office, the scheme enables retail investors with a valid PAN card and bank account to directly open a ‘Retail Direct Gilt Account’ (RDG Account), eliminating the need for going through any intermediaries. Figure 1 depicts the seamless onboarding process that is based on adherence to RBI-Know Your Customer (KYC) Direction, 2016. Investors can make payments for transactions conveniently using their saving bank accounts through internet-banking or the Unified Payments Interface (UPI). No fees are charged for the full range of investor services provided under the scheme.

Figure 1: Procedure for Opening a Retail Direct Gilt Account



Source: Collated by Authors from https://rbiretaildirect.org.in

Since the launch of the portal, continuous efforts have been made to refine the processes and services offered. Adopting the template of market making through PDs in the institutional market, RBI has also notified a market making arrangement for the Retail Direct scheme as well wherein the PDs have been directed to be present on the NDS-OM platform (odd-lot and RFQ segments) throughout market hours and respond to buy/sell requests from RDG Account Holders. Table 4 gives a brief timeline of the developments in the RBI Retail Direct scheme since its announcement in February 2021.

Table 4: Timeline of the RBI Retail Direct Scheme

Period	Date	Details
2020-21	February 5, 2021	The 'RBI Retail Direct' facility was announced in the Statement of Developmental and Regulatory Policies.
2021-22	July 12, 2021	The 'RBI Retail Direct' scheme was notified as a one-stop solution to facilitate investment in G-Secs by individual investors.
	November 12, 2021	**RBI Retail Direct portal was launched.**
	December 8, 2021	The transaction limit in UPI system was enhanced from ₹2 lakh to ₹5 lakh for investment in the G-Secs through the Retail Direct Scheme.
	January 4, 2022	RBI notified a market making arrangement wherein the Primary Dealers shall be present on the NDS-OM platform (odd-lot and RFQ segments) throughout market hours and respond to buy/sell requests from RDG Account Holders.
2022-23	Ongoing fine-tuning of KYC process	Included upgradation in video KYC, use of Digilocker and automatic saving of data during KYC process to make the portal more user friendly.
2023-24	October 9, 2023	NACH payment functionality made available on the portal.
	October 23, 2023	Subscription to Floating Rate Savings Bonds was enabled.
2024-25	May 28, 2024	Launch of Mobile Application.

Source: Compiled by Authors from RBI notifications and Annual Reports.

5.3. Growth in RBI Retail Direct Scheme

The RBI Retail Direct scheme is gradually picking up pace among retail investors, with their holdings jumping from ₹914.47 crore as on November 14, 2022 to ₹2207.81 crore as on November 11, 2024. Activity in the secondary market segment has increased from ₹175.61 crore to ₹929.17 crore during the same period as seen in Table 5.

Table 5: Cumulative Data as on November 11, 2024

Total number of Registrations@	2,65,341
Total number of Accounts Opened	1,81,202
Primary Market Data (in ₹ Cr)	
Total Primary Market Subscriptions	5,585.80
Of which:	
Central Govt. Dated Securities	684.19
State Government Securities	404.46
Treasury Bills	3855.19
Sovereign Gold Bond	298.61
Floating Rate Savings Bond	343.35
Secondary Market Data (in ₹ Cr)	
Total Traded Volume	929.17
Of which:	
Central Govt. Dated Securities	832.33
State Government Securities	58.20
Treasury Bills	36.19
Sovereign Gold Bond	2.45
Holdings (in ₹ Cr)	
Total Holdings	2,207.81
Of which:	
Central Govt. Dated Securities	771.79
State Government Securities	423.77
Treasury Bills	668.90
Floating Rate Savings Bond	343.35
Sovereign Gold Bond Holdings (in Kg)	
Total Holdings	736.69

*Since inception- November 12, 2021
@ excludes 95918 withdrawn/rejected applications due to non-completion of the account opening process

Source: Collated by Authors from https://rbiretaildirect.org.in/#/about_statistics

These numbers indicate the preference for using the platform largely as a means of investment rather than for trading by retail participants. Retail investors are also actively using the RBI Retail Direct platform for investing in products targeted towards them such as Sovereign Gold Bonds (SGBs) and Floating Rate Savings Bonds (FRSBs). While FRSBs are non-tradeable in nature, retail users have used the easy exit facility offered by the RBI Retail Direct platform for liquidating their SGB holdings before the bonds' redemption dates, while the same have been purchased by other retail investors who may have missed out during the primary issuances.

5.4. Global Comparison

Most large economies such as the United States, the United Kingdom, Japan, Germany, Italy, France, Australia, South Africa, etc. have some retail participation in their government bond markets. However, this is largely in the form of long-term investments such as in the case of the US where retail investors can place non-competitive bids in the auctions conducted by the US Department of Treasury through the TreasuryDirect platform. In most cases, including in the US, retail participants have to go through various intermediaries such as banks and / or brokers, especially if they want to exit their positions or transact in the secondary markets.

In comparison, the RBI Retail Direct scheme gives retail investors direct and full access to the Indian G-Sec market - both primary and secondary market segments, including an easy exit option at transparent prices that are at par with the prices for larger sophisticated market participants. In addition to these facilities, there are *no registration or transaction charges* for the retail investors on the RBI Retail Direct platform.

6. Benefits of the RBI Retail Direct Scheme for Retail Investors

6.1. Safety of Low-Risk Investment Instruments

Returns on investments are directly dependent on the risks borne by the investors with the guiding norm being – higher the risk, higher the returns. In recent years, easy access to innovative financial products facilitated by digital platforms has exposed many retail investors to complex high-risk investments on the promise of quick and high returns. With many of them, particularly in the vulnerable groups such as senior and super-senior citizens losing their entire investments, multiple regulators have come up with guidelines on mis-selling of financial products by entities regulated by them. However, despite multiple advisories against such speculative investments and high taxes on products such as cryptos, the allure and marketing of the high returns still draw in the retail investors.

G-Secs offer investors maximum safety because of the Governments' commitment for timely payment of interest and repayment of principal. Thus, despite the continued risk of adverse price movements, G-Sec returns are considered to be the *risk-free benchmark interest rates* for the financial markets because of this guarantee of timely cash flows. While G-Secs do not promise unusually high returns, investors can be assured of market-linked returns, safety of their investments as well as committed interest payments. Table 6 illustrates the risk-return profile of various investment options available for Indian investors.

Table 6: Risk – Return Profile of Some Investment Options

	Regulated Instruments			Some Other Instruments	
Feature/Type	**G-Secs**	**Equity**	**Derivatives**	**Crypto Currencies**	**Private Chit Funds**
Risk Profile	Low	High	High	High (Unregulated)	High
Return Potential	Moderate, Stable	High Potential, Volatile	High Potential, Very Volatile	High Potential, Extremely Volatile	Moderate to High
Liquidity	High	High	High	Varies	Low

Source: Compiled by Authors.

6.2. Safety of Transaction Infrastructure

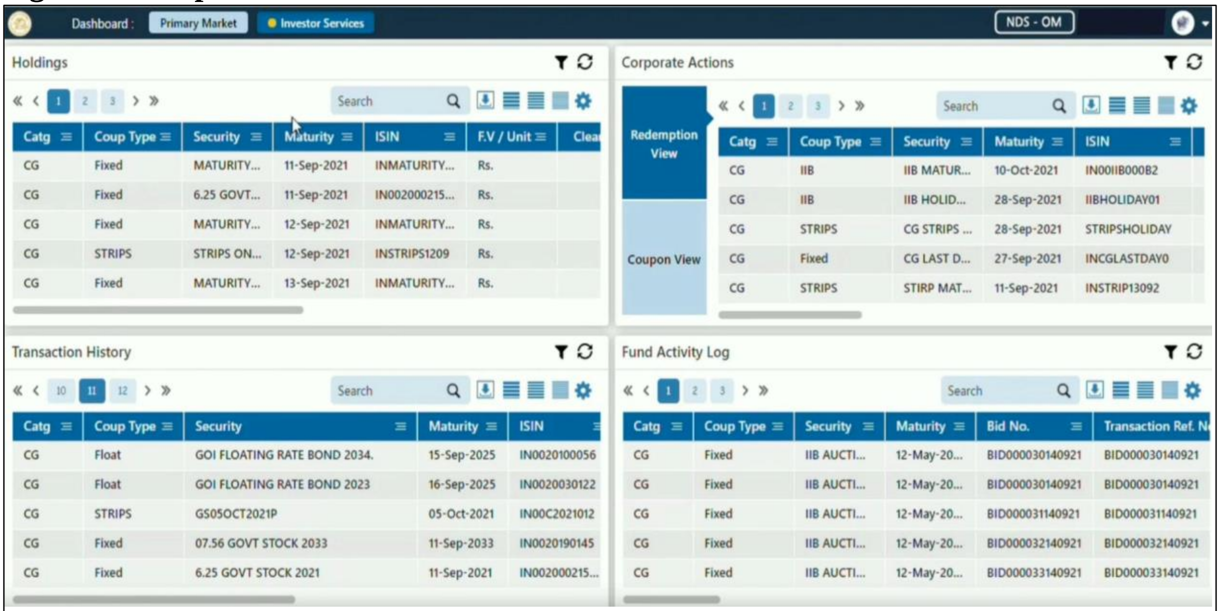
Bidding for primary auctions through RBI Retail Direct is linked to RBI's E-Kuber system and secondary market transactions i.e., buying / selling of existing G-Secs are linked to RBI's anonymous trading platform NDS-OM. This ensures that retail participants get access to the prices available to sophisticated market participants. For the primary auctions, CCIL acts as the aggregator for all the bids received from the RBI Retail Direct platform and submits a single consolidated bid to RBI under the non-competitive segment. On submission of their bids, RDG Account Holders are able to view the total amount payable by them. Allotted securities are issued to the investors by credit to their respective RDG Accounts on the day of settlement.

Payments to the aggregator i.e., CCIL can be made through net-banking/UPI facility. Similarly, secondary market orders by RDG Account Holders flow into the NDS-OM system (odd lot segment/RFQ) and from there on to CCIL's guaranteed settlement infrastructure for the G-Sec market. While G-Sec purchases are credited to the RDG Accounts on the day of settlement, G-Secs identified for sale are blocked at the time of placing the order till the settlement of the trade. Funds from the sale transactions are credited to the linked bank account on the day of settlement.

6.3. Transparency and Easy Exit Option

Unlike instruments in Small Saving Schemes which usually have a lock-in period as well as no secondary market option, G-Secs have a ready secondary market that can be used by retail investors as an exit option at any point of their choice. The RBI Retail Direct platform not only gives them the access to transparent prices that are at par with those available to sophisticated market participants, additionally, a well-defined system has been put in place for assured quotes even for illiquid securities. The complete trail of transactions can also be viewed easily on the platform along with events such as coupon receipts etc. Figure 2 shows a screen shot of the platform.

Figure 2: Sample View for Investors on Retail Direct Platform

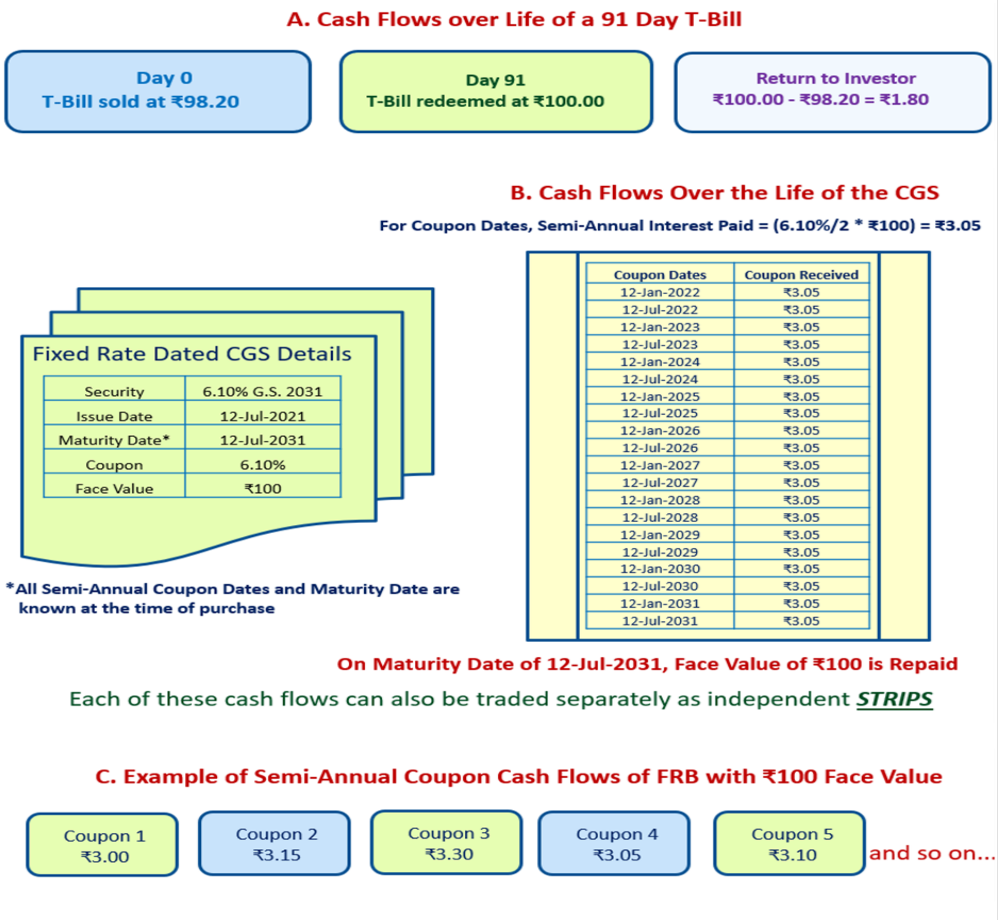


Source: Collected by Authors from https://rbiretaildirect.org.in/#/Tour

6.4. Availability of Choice

A wide variety of G-Secs are available at any point of time. G-Secs offer a wide range of maturities from 91 days to 50 years. Coupon payment dates as well as redemption dates are known in advance right from the time a G-Sec is issued for the first time. In fact, the exact coupon or interest payments due are clearly evident from the very nomenclature of the securities. In comparison, most banks offer term deposit plans up to 10 years, while equity investments do not provide any future guidance on dividend payments. RBI also notifies advance indicative calendars for issuance of G-Secs through auctions - semi-annual calendars for CGS and quarterly calendars for SGS and T-Bills. While discounted instruments like T-Bills have maturities extending up to 1 year, STRIPS are available up to maturities of 50 years. Figure 3 gives an illustration of the cashflow structure of different types of G-Secs.

Figure 3: Illustrative Cashflows for G-Secs



Source: Collated by Authors. Figures are for illustration purpose only.

All this advance information can be used by retail investors to plan their investments as per their investment horizon, cashflow requirements and risk appetite. E.g., investors can plan their investments in such a manner that they are able to receive funds either out of coupon payments or redemption value on a specific day in each month for a period up to even 50 years without the need to go through an intermediary to design such a structure for them. The availability of easy entry and exit options through the secondary market enables investors to maintain market linked returns for their holdings. As seen in Table 5, retail investors are already actively using the RBI Retail Direct platform to maximize their returns over the very short-term investment horizon using T-Bills.

6.5. Cost Effectiveness and Ease of Use

Investors do not have to pay any charges to transact on the RBI Retail Direct platform. Further, no intermediaries or paperwork are involved at the time of opening the account which is an online process. All historical transaction statements are available online for download at any point of time. Transactions on the RBI Retail Direct platform can be done online through the web portal as well as through its secure mobile application.

7. Ongoing Developments to Increase Retail Participation

- **Entry Size**: The G-Sec market in India has traditionally been a segment dominated by large institutional participants. As a result, even though the face value of a G-Sec is standardized at ₹100, the minimum investment value for retail investors is currently ₹10,000 and the standard lot size for the regular institutional market is ₹5 crore. However, for bonds targeted at retail participants such as Floating Rate Savings Bonds, the minimum investment value through the RBI Retail Direct platform has been brought down to ₹1,000.
- **Liquidity Issues**: In cognizance of the fact that large market participants may not be interested in giving quotes for small trading lots, RBI has put in place a well-defined market making mechanism for the RBI Retail Direct scheme.
- **Lack of Awareness**: Regulators are now focussing on creating awareness about the G-Sec market as a whole and the RBI Retail Direct scheme in particular through various modes of communication.

8. RBI Retail Direct Scheme through the Lens of Financial Inclusion

Financial inclusion has been a key focus area for the Indian government and various regulators, with significant progress in recent years driven by digitalisation. To give a numerical measure capturing the extent of financial inclusion in the country, RBI launched an annual "Financial Inclusion Index" in August 2021, that tracks 97 indicators in terms of (i) ease of access; (ii) availability and usage of services; and (iii) quality of services. RBI gauges the quality aspect of financial inclusion through financial literacy, consumer protection, and inequalities and deficiencies in services.

While no official numbers regarding it have been released, the RBI Retail Direct scheme ranks high when gauged in terms of these parameters on account of the enhanced ease of access and availability of the platform online and through the mobile application while ensuring uniform quality of services for all customers. In terms of customer protection and equality in services received, retail investors are able to participate directly in the G-Sec market without going through any intermediaries while getting the protection from the guaranteed settlement infrastructure that is available for institutional participants. Further, in terms of financial literacy, with G-Secs being fairly new instruments for retail investors with relatively complex pricing structure, the regulator has undertaken a systematic approach towards generating awareness towards both the product (i.e., G-Secs) and the platform (i.e., RBI Retail Direct). Regular emails are sent to registered users, while simple videos have been uploaded on the portal demystifying the terms and practices related to the G-Sec market. For aggregation of financial information on G-Secs held by retail investors in their RDG Accounts, RBI has also included CCIL as a Financial Information Provider from February 22, 2024. Table 7 gives the details of some of these awareness measures.

Table 7: Targeted Awareness Measures for the RBI Retail Direct Scheme

Type	Content/Media	Details
On the Portal	Detailed information about the Scheme	All information on the website is also available in 10 major regional languages apart from Hindi and English.
	Educational videos	Explainers on Bonds as a financial instrument and the Indian G-sec market.
		Exhaustive tutorials on using the Retail Direct Platform - Primary and Secondary segments.
	Transparent market rates	Market snapshot of regular G-Sec market (RBI NDS-OM) as well as tenorwise indicative yields are provided as a reference for retail investors.
Mailers	Email updates to registered users	Regular updates over email are sent to registered users on:
		· Upcoming auctions
		· Platform updates
		· New services
		· Awareness about G-Secs
Customised Campaigns	Conducted by RBI's Department of Communication	Using various channels, viz., television (TV), print, radio, digital, out-of-home (OOH), short messaging system (SMS) and cinema, in 12 major regional languages apart from Hindi and English.
		· June 2022
		· July - August 2023
		· March 2024
Others	Investor education	A detailed primer on G-Sec market is available on the RBI website: https://rbi.org.in/Scripts/FAQDisplay.aspx?Id=79
	Outreach	Through educational institutes, conferences, etc.

Source: Compiled by Authors from CCIL, RBI Retail Direct website and RBI's Annual Reports for 2022-23 and 2023-24.

9. To Summarise

Financial inclusion is often viewed from a micro perspective. The ultimate goal of financial inclusion should be empowering micro-level agents, i.e., common citizens, to participate freely in the country's macro-level growth. No one should be excluded from any segment or instrument within the financial market if they have the knowledge and risk appetite for it. Financial inclusion will be the foundation for an inclusive and Viksit Bharat by 2047 where citizens support the Government's development agenda.

India has been at the forefront of adopting evolving technology to first digitize financial instruments, then digitalizing financial markets with electronic trading and settlement systems and now digitally transforming the financial markets with innovative products and services. However, in recent years, the availability and accessibility to complex financial products aided by technology has resulted in many unsophisticated retail investors incurring substantial losses. Regulators have been warning retail investors against such products and their mis-selling with the promise of unrealistic returns. At this juncture, it becomes even more crucial to generate greater awareness among these investors about safe investment options like G-Secs, which are readily available at their fingertips at no additional costs.

With its user-friendly interface and simplified processes, the RBI Retail Direct scheme enables retail investors to build a diversified portfolio while giving them the chance of contributing directly to the nation's development. Increased retail participation in the G-Sec market is a win-win situation for both the investors as well as the issuers. An active and diversified retail market, including a large number of buy-and-hold investors is expected to contribute to stable demand for G-Secs and provide a cushion in times of volatility. In line with the development goals for financial markets, the RBI Retail Direct platform provides a one-stop solution by addressing the issues of enhancing financial market depth, adoption of technology and lowering cost of participation by retail investors.

In the spirit of Vision Viksit Bharat 2047, the RBI Retail Direct scheme *creates a transparent system with efficient and smooth processes guided by the citizen first approach that promises to further deepen the outreach of the Indian G-Sec market and make it a more effective facilitator of India's all-round and all-inclusive development.*

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