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RBI's move to allow retail investors to directly buy G-Secs to help deepen bond mkt: Experts

New Delhi: The Reserve Bank's decision to allow retail investors to directly buy government securities has been welcomed by experts saying it will help in deepening the bond market.

Besides, the move would also ease the government's fundraising programme, the experts said on Friday.

"The move to allow retails investors to directly participate in government securities seems to be a good one. However, we continue to believe that safe debt mutual funds, ETFs and fixed deposits remain better options for retail investors," Pankaj Pathak – Fund Manager – Fixed Income, Quantum Mutual Fund said.

On Friday, Reserve Bank of India (RBI) said it will allow retail investors to directly buy government debt, making India the first Asian country to do so and among a handful globally, in a bid to encourage small investors to become direct investors in government bonds or stated simply to an infinite source of lending to the government.

The central bank hopes the move will allow greater depth to the gilt market in particular and the overall debt market in general, thus deepening the financial markets as lack of depth has been the biggest bane of the domestic debt market all this while.

Currently, the RBI allows small investors to buy government bonds via the Gobid platform on BSE and NSE, but it has not gained any traction.

Harshad Chetanwala, co-founder MyWealthGrowth.com, said allowing retail participation in any market improves the depth of that market and now with the RBI allowing retail investors to directly invest in government securities will help the market and investors as well.

He, further, said equal importance needs to be given to investor education on government securities for retail investors, as these investments come with a spectrum of maturity period. While government securities do not carry any kind of credit risk, it does carry interest rate risk which increases with the maturity period.

Rajee R, Chief Ratings Officer, **Brickwork Ratings**, said allowing retail investors to access the GSec market is an interesting and welcome move, which may ease the government's fundraising programme and help in deepening the bond market.

"The effectiveness of this will depend upon the attractiveness of the bonds to the retail investors. In any case, we do not expect this to make any significant impact on the bond yields in the near term," Rajee added.

Divam Sharma, co-founder at Green Portfolio, said, there is high interest in G-Secs by many retail investors considering sovereign grade credit ratings; high liquidity; and higher yields than fixed deposits and many other debt instruments.

Investors can now directly invest in these securities instead of participating through Gilt mutual funds. This way, investors can save on the fund management fee on these investments.

"Opening G-Sec to retail is well intended, but investors need to know risks before they step in. G-Secs carry duration, and retail enters after rates have fallen because past returns look high. When rates reverse, this is painful.

"Target maturity structures are still better for retail investors because of the predictability of returns they offer," said Radhika Gupta MD and CEO Edelweiss Asset Management.

V K Vijayakumar, Chief Investment Strategist at Geojit Financial Services said the reform will allow retail investors direct access to gilts both through the primary and secondary market can also substantially deepen the bond market.

"For investors, this provides the opportunity to invest in the safest risk-free return investment. Also, long-term investors need not bother about the fluctuations in bond prices, if held to maturity," he added.

Tejas Khoday, co-founder and CEO of FYERS, said it is encouraging news for retail investors.

While the details are still unclear, Khoday expects that it will happen through the exchanges and depository route to further help streamline and regulate the growth of financial investments.

Banks can be disintermediated if retail savings are directly channelled to G-Secs. However, it is easier said than done, he added.

The sheer lack of awareness about bonds or debt securities is the biggest hindrance. Historically, India has had an equity culture and almost no direct exposure to bonds. Hence, banks attract the lion's share of retail savings through fixed deposits, he noted.

At present, small investors prefer to invest in bank fixed deposits, Gilt funds, and other debt mutual funds as it is much easier and has no entry barriers.

Juzer Gabajiwala, Director, Ventura Securities, said it is a good initiative by the RBI to allow retail participation in G-Secs. However, much will depend on how easy it is made for retail investors to understand and execute.