

# Are bond platforms a good option for retail investors?

Players in the bond market feel that the appetite is ripe for direct retail investment in bonds

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For Indians, particularly retired ones who are used to fixed deposits, the idea of hefty interest income is seductive. A series of players in the private sector have sought to tap this demand by launching 'bond platforms' where retail investors can directly buy bonds. The RBI Retail Direct platform also addresses this need.

Most Indians are not familiar with the concept of directly buying a bond. Fixed deposits are the most common fixed income instruments, followed by debt mutual funds. Some investors are familiar with tax-free bonds from PSUs, but fresh tax-free bonds have not been issued in several years by the government. The capital gains tax saving bonds under Section 54 EC of the Income Tax Act, 1961, are another familiar instrument. But these are also available for a specific purpose—to save capital gains tax for someone who has incurred a capital gain, for instance by selling property. Past instances of aggressive sales of direct bonds to investors have left a bad taste in the mouth for some, such as the buyers of DHFL bonds or the perpetual bonds of Yes Bank. Both issuers defaulted and a resolution scheme for the latter wiped out the claims of bond holders.

Despite these instances, players in the bond market feel that the appetite is ripe for direct retail investment in bonds. Three large bond platforms from the private sector launched in recent years are Altifi by Northern Arc, Bondskart by JM Financial and Wint Wealth whose platform goes by the same name. Most of these players are essentially brokers. Credavenue, a fourth platform which also facilitates bond trading is more focused on corporates, banks and high net worth individuals. They sell bonds

**Covered bonds are an innovative structure that seek to reduce investor risk and hence enhance rating**



## How bond platforms stack up

Sponsor	Platform	Potential risks
RBI Retail Direct	RBI	Liquidity, Only govt bonds on offer
JM Financial	Bondskart	Credit Risk, Liquidity
Northern Arc	Altifi	Credit Risk, Liquidity

that they own (called prop or proprietary book holding) to retail investors. In some cases, they may not have the bond in question, and hence they procure it from the market. Each platform is different. For instance, Wint Wealth focuses on relatively high risk bonds from NBFCs. 'Covered bonds' are an innovative structure that sought to reduce investor risk and hence enhancing commonly offered by Wint Wealth. Recent RBI rules seem to have put an end to the market for covered bonds and Wint Wealth has pivoted to 'Senior Unsecured Bonds'.

However, the platforms focus on some unique selling points (USPs). First, they showcase an end-to-end digital process where investors can purchase a bond from the comfort of their

home, just as they would trade in stocks. Bondskart comes with an app in addition to a website presence. Second, they allow 'bite-size' investing. On the bond platforms of stock exchanges like BSE and NSE, trading happens in lots of ₹5 crore or more, essentially cutting out retail investors. The latter can trade in 'odd lots' but liquidity there tends to be poor. The platforms claim to offer investors the ability to buy and sell in small amounts of a few lakh rupees. Third, they claim to offer investors a 'curated experience' where the really risky bonds have been culled out. According to JM Financial, the focus will be on AAA and AA bonds.

"The creation of new bond platforms deepens the market and is hence welcome. However, I do not think that retail investors should directly invest in bonds given the lack of liquidity and price performance risk unless the intent is to hold to maturity. Bond trad-

ing is not as easy to understand," said Roopali Prabhu, chief investment officer, Sanctum Wealth Management.

Apart from the first claim, the rest can only be verified over time. It is unclear whether platforms will actually provide the liquidity they propose.

As far as curation goes, the platforms do not owe investors a fiduciary duty in law and hence there is no obligation on them to exercise utmost due diligence.