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GOLD

AS A FINANCIAL INCLUSION TOOL

Misha Sharma, Shambhavi Srivastava, Govind Singh

May 2017

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This Study was funded by the India Gold Policy Center (IGPC) which is housed at the Indian Institute of Management Ahmedabad (IIMA). Sponsored by World Gold Council, IGPC is a center of excellence, conducting cutting edge applied research on the Gold Industry in India that provides insights and suggest ways the findings can be put into execution. The Study was conducted by a team of researchers from IFMR LEAD comprising Misha Sharma, Shambhavi Srivastava and Govind Singh.

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EXECUTIVE SUMMARY

India accounts for 10% of the total world gold stock and is the second largest market for gold after China. In 2015, India bought 663 tonne of gold jewellery and continues to remain one of the world's largest gold jewellery consuming countries. Indian investment in gold is motivated by several social, economic and cultural factors, although demand for gold is primarily driven by income and prices. Gold is often bought on special occasions such as weddings, festivals and other auspicious events. However, Indians use gold not just for ornamental purposes but also for fulfilling the financial needs of households. Households use gold to save, invest and smooth consumption in the event of shocks and any unforeseen circumstances.

The nature of the Indian economy makes the role of gold all the more important. For a country of more than 1.2 billion people, where 22% of its population is below the poverty line and more than 70% of the population is still categorized under the informal economy with vulnerable jobs and irregular income, gold acts as a medium to cater to the various financial needs of the household. Hence, gold could be classified as an alternate tool for financial inclusion among low income households. This is more so true for the rural economy that constitutes 70% of the total population and predominantly engages in agricultural activities as their primary source of income. With income from agriculture constantly dwindling and a general lack of institutional credit for farming activities, the agrarian population relies heavily on gold (in the form of gold loan or selling gold) to make necessary agricultural expenses.

The Indian gold market and gold in the financial system therefore becomes an interesting area to research on, given the importance it holds in the Indian context. Gold in the financial system offers products such as gold loans, gold savings schemes and gold investment schemes. This study aims to get an in-depth understanding of how Indians use gold as a financial instrument in the form of savings, loans and investments. We also assess the awareness and interest people have with regard to the gold schemes most recently launched by the Government of India in view of developing the Indian gold sector further.

Findings from the study suggest that gold is an important tool for financial inclusion. Our study participants are active consumers of gold and use gold beyond ornamental purposes, although there is substantial district-wise variation. Gold loan was the most popular gold-based financial product among the study population and informal gold loans constituted for a large pie of the market share, which offer lower gold loan amounts at higher interest rates, as compared to formal gold loan providers which offer higher gold loan amounts at lower interest rates. Additionally, we also find that gold loans were primarily being used for smoothening household consumption and for repaying previous debts, although, it must be pointed out that half of our sample also mentioned using it for productive purposes such as investments in business, education and household improvement and repairs. Finally, we find that Government launched gold schemes such as Gold Monetization Scheme (GMS), Sovereign Gold Bond (SGB) and Indian Gold Coin Scheme (IGCS) were not very successful as people were not aware of these schemes. Although study respondents did express willingness to invest in these schemes if they received adequate information about the products, which indicates the potential for promoting and targeting these schemes better.

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LIST OF ACRONYMS

FICCI – Federation of India Chamber of
Commerce and Industry

GMS – Gold Monetization Scheme

ICRA – Information and Credit Rating Agency

IGCS – Indian Gold Coin Scheme

IGPC – India Gold Policy Center

KYC – Know Your Customers

MFIs – Micro Finance Institutions

NBFC – Non Banking Financial Company

PMJDY – Pradhan Mantri Jan Dhan Yojana

RBI – Reserve Bank of India

SHGs – Self Help Groups

SGB – Sovereign Gold Bond

Background

India accounts for 10% of the total world gold stock and is the second largest market for gold after China.¹ In 2015, India bought 663 tonne of gold jewellery and continues to remain one of the world's largest gold jewellery consuming countries. However, jewellery and industrial manufacturers remain heavily reliant on gold imports, forcing the Government to impose import restrictions. Regardless of these policies, demand for gold remains stable and is primarily driven by two factors- income and prices. A one percent increase in income leads to a one percent increase in the demand for gold. Similarly, a 1% increase in prices, leads to a half percent decrease in the demand for gold. Apart from this, monsoon factors (due to heavy reliance on agriculture) and inflation are also said to impact the demand for gold in India.² Although, these are some of the high level trends observed in the Indian gold market, it is difficult to quantify the sentimental value that Indians attach to their gold.

Gold is often bought on special occasions such as weddings, festivals and other auspicious events. However, gold is not just used for ornamental purposes. Its value in fulfilling the financial needs of households is considered equally important. Households use gold to save, invest and smooth consumption in the event of shocks and any unforeseen circumstances.

The nature of the Indian economy makes the role of gold all the more important. For a country of more than 1.2 billion people, where 22%³ of its population is below the poverty line and more than 70%⁴ of the population is still categorized under informal economy with vulnerable jobs and irregular income, gold acts as a medium to cater to the various financial needs of the household. Hence, it could be classified as an alternate tool for financial inclusion among low income households. This is more so true for the rural economy that constitutes 70%⁵ of the total population and predominantly engages in agricultural activities as their primary source of income. With income from agriculture constantly dwindling and a general lack of institutional credit for farming activities, the agrarian population relies heavily on gold (in the form of gold loan or selling gold) to make necessary agricultural expenses.

India has made great progress in the space of financial inclusion. Financial inclusion, defined in terms of access to bank accounts, has increased from 35% of adult population having access to bank accounts in 2011 to 65% in 2015.⁶ The Government sponsored Pradhan Mantri Jan Dhan Yojana (PMJDY) is responsible for this in a large way as it spurred the access to bank accounts

¹ Surveying the Indian Gold Loan Market, Cognizant, January 2012

² <http://www.gold.org/research/india-gold-market>

³ <http://www.worldbank.org/en/news/infographic/2016/05/27/india-s-poverty-profile>

⁴ <http://www.thehindu.com/opinion/columns/Chandrasekhar/indias-informal-economy/article6375902.ece>

⁵ <http://www.thehindu.com/news/national/About-70-per-cent-Indians-live-in-rural-areas-Census-report/article13744351.ece>

⁶ World Bank Global Findex Database 2014

even in rural and remote parts of India. However, access does not always imply usage and in that sense, there still remains scope for considerable progress. Additionally, access to bank accounts is just one aspect of financial service. There are other basic financial services that people, especially low income households need, such as credit for expanding or initiating businesses, educational or household improvement expenses, etc. that the majority of this segment is still deprived of. In such a situation, gold loans prove to be extremely useful as people with gold are able to acquire quick loans by pledging their gold as collateral.

The Indian gold market and gold in the financial system therefore becomes an interesting area to research on, given the importance it holds in the Indian context, as described above. Gold in the financial system offers products such as gold loans, gold savings schemes and gold investment schemes from both the formal and informal market. Although, it must be stated here that gold loan dominates the gold financial market and is one of the most popular channels of credit.

In this study we aim to get an in-depth understanding of how Indians use gold as a financial instrument. Here we classify the financial instrument along three channels, that of, gold loans, gold savings and gold investment. We also assess the awareness and interest people have with regard to the gold schemes most recently launched by the Government in view of developing the Indian gold sector further.

Literature Review

A scan of literature on the topic of India's gold market, specifically as a financial inclusion tool suggests that there is a general lack of research in this space. However, there are several not-for-profit and consultancy agencies that have published reports on the Indian gold market from a macro perspective. Some of the sector experts in this space such as World Gold Council, FICCI, ICRA and RBI have produced annual reports on the macro trends pertaining to gold demand and supply both in India and globally. These reports also talk about the policy implications of the current status of the sector and the Government's outlook on the role of gold sector in India's economic growth. During the course of the study, the research team referred to these reports for a better understanding of the sector.

A previous descriptive study conducted by IFMR LEAD, titled 'Study of gold as an alternative source of credit' looked at assessing gold loan's market positioning and preference compared to other sources of credit available to the poor. The study also tried to understand the fragmentation of the gold loan sector by exploring both the formal and informal channels of credit available in the sector, the factors that led consumers to choose one over the other and the various reasons for which people acquired a gold loan. It was found that people with stable incomes and a degree level education are more likely to have a formal gold loan and those with unstable jobs and lower literacy levels are more likely to have gold loans from informal sources. It was also found that people primarily take up gold loans for consumption smoothing purposes and that their preference for formal versus informal gold loans depends on the institution's proximity to their residence and the relationship they share with their financial institution (Sharma, 2013).

2

RESEARCH OBJECTIVE AND METHODOLOGY

This study aims at understanding ‘Gold’ as a medium for financial inclusion with the objective of assessing three distinctive aspects of the Indian gold sector. They are summarized as follows:

Consumer Perception and Behavior towards Use of Gold

The study aims to understand the consumer behavior and perception towards demand for gold in terms of reason (different purpose for buying gold), frequency and source (formal retail chains versus informal local shops) of buying gold and how they put their gold into use (recycling of gold, bank savings/deposits, etc.).

Access and Usage of Gold Based Products

The study focuses on the uptake and usage of three major products- gold loans and gold backed investment and savings products offered by both formal and informal financial sector. The study also assesses features of the market in terms of preferences, usage, sources of acquiring these different gold based financial products and consumer satisfaction for the same.

Awareness Regarding Government Initiated Gold Schemes

The recently launched Government schemes namely, Indian Gold Coin Scheme, Sovereign Gold Bond and Gold Monetization schemes, focus on mobilizing gold stored in Indian households. The study assesses the levels of awareness among people about the recently launched gold schemes in India.

Empirical Strategy

The study is descriptive and exploratory in nature and aims to provide commentary on how Indians use gold-based financial products to supplement their economic lives.

Data Collection

Consumer data was collected on the broad themes of access, uptake and usage of gold-based financial products, perception and behaviour of consumers towards gold and awareness of the newly launched Government gold schemes.

Data Collection Instruments

Consumer survey was the primary data collection instrument used for the study. This included a detailed questionnaire with modules on demographics, financial & social background, financial behavior, occupation, consumption, expenditure, usage of gold, uptake and satisfaction with gold financial products, behavior towards gold products and awareness of newly launched gold schemes. The survey was also piloted in the Hoskote region in Karnataka and revised according to the inputs gathered from the pilot exercise.

Inclusion Criteria

The study involved selection of households based on a screening criterion by which the consumer survey in full was administered to only those individuals who had outstanding gold-based financial products. Respondents were thus included selectively to avoid a lack of information on gold-based financial products and its structure (such as repayment process, source of acquisition, interest rate, nature of interest rate, and use of loan). In the case where a respondent did not possess any gold-based financial product, a small survey was administered as part of the screening criteria- in order to capture whether or not they had gold and the reasons as to why they did not take up any gold-based financial products.

Sample and Location of the Study

The study was conducted in four regions; Saharanpur (Uttar Pradesh), Coimbatore (Tamil Nadu), Hooghly (West Bengal) and Kolhapur (Maharashtra). The total sample size of the study was 1,000 households, 250 from each region. 125 of these households were sampled from rural areas (4 villages), whereas the remaining 125 households were sampled from peri-urban areas. A summary of the locations sampled is presented in the table below.

Table 1: Summary of Locations Sampled

Region	State	District	Block	Peri-urban	Village
North	Uttar Pradesh	Saharanpur	Nanauta	Nanauta Panda	Barsi, Fatehpur, Tholla Fatehpur, Khudana,
South	Tamil Nadu	Coimbatore	Papanayakanpalayam	Papanayakanpalayam (urban)	Vadamadurai, Kovanoor, Palanicheetipanayam, Thirumalur
East	West Bengal	Hooghly	Arambal	Arambal (urban)	Haraditya, Mayapur
West	Maharashtra	Kolhapur	Hatkanangale	Hatkanangale (urban)	Atigre, Chokak, Alte

3

SURVEY RESULTS

This section summarizes results from the primary data collected across a range of socio-economic indicators along with providing insights on usage of gold and gold based financial products that the households use as an alternate financial instrument.

Demographics

The section below provides descriptive statistics for basic demographic indicators from the survey, namely: gender composition of the respondents, average age of household members, household size, and education levels of household members as well as occupation and income patterns of the households across all four districts.

Gender

The respondents of the survey (85.37%) were predominantly men. Observations in the field indicate that the low level of women respondents was primarily due to two reasons. Firstly, the women of the household were hesitant in openly speaking about loans in the absence of their husbands who in most cases were observed to be managing the financial revenue of the household. Secondly, in some cases, women who were observed to be wearing gold also hesitated to participate in the questionnaire due to the sensitive nature of the questions the survey entailed with regard to household finances. As observed from the figure below, this was especially true for Saharanpur where less than 1% of the total respondents were women.

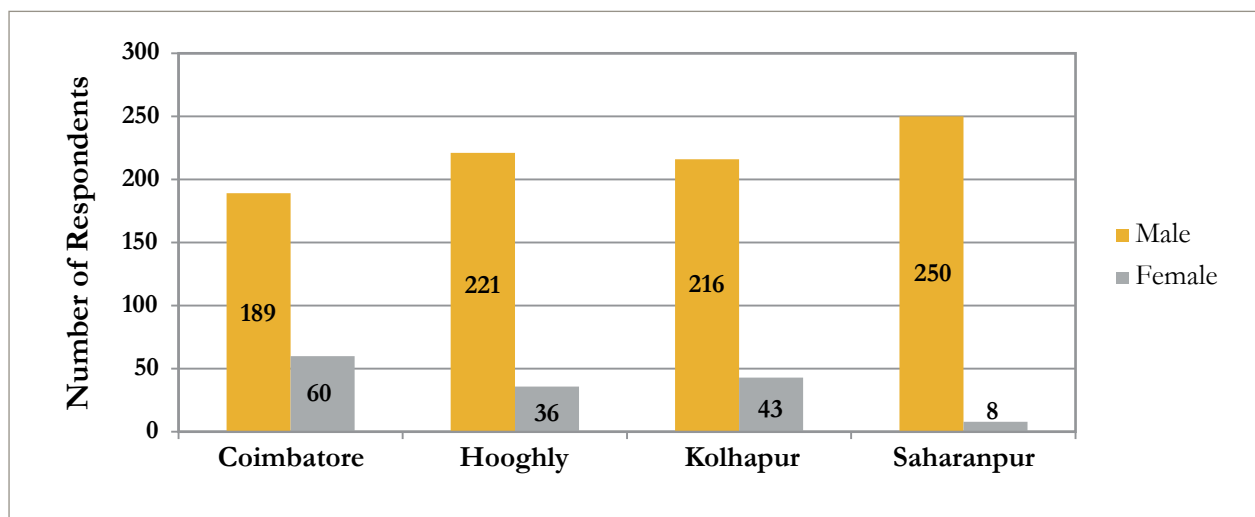


Figure 1: Gender Composition of Study Respondents

Household Characteristics

The average age of household members combining all four districts was 30, and the average number of members per household from all districts was 6, although there was some district-wise variation here.

Work status and education

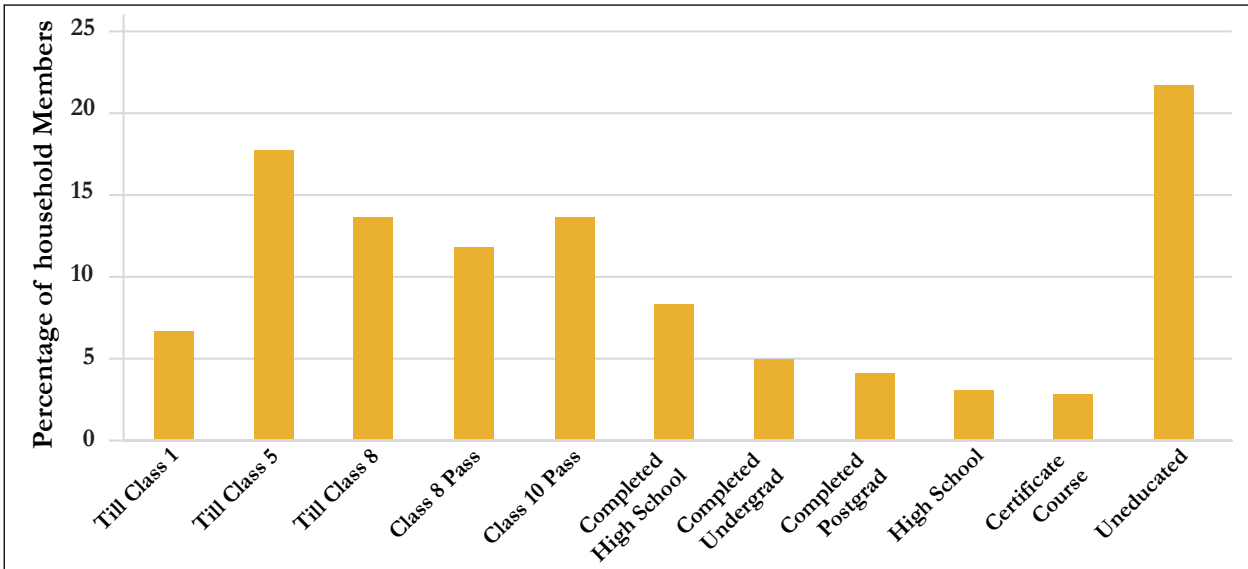


Figure 2: Education Level of Household Members

In terms of the work composition of the household members, majority of the working household members were primarily salaried workers followed by those engaged in some form of farming activity. Majority of the household members were uneducated, followed by some schooling received between 5th to 10th grades. While a few of the household members stated having completed high school, the number of people in college or having a college degree were found to be extremely low. One of the explanation for this among cultivators or agricultural laborers was that this was due to the need felt to discontinue studies after school due to familial requirement in management of their farmland.

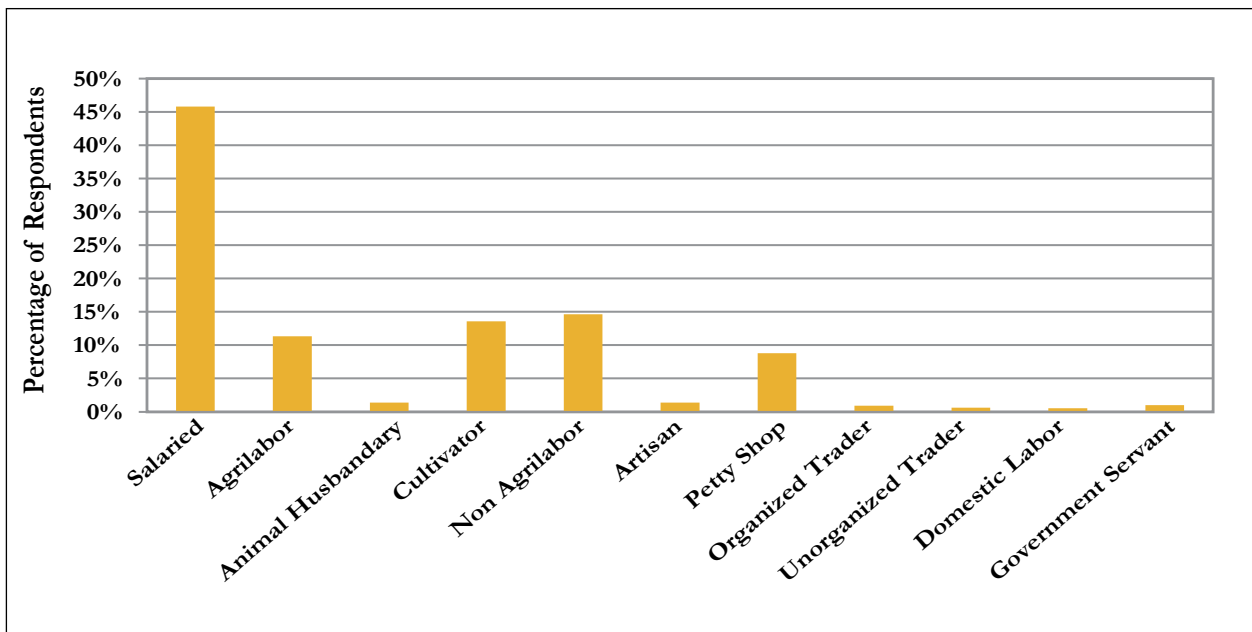


Figure 3: Work Status of Household Members

Income

The mean income, combining all four districts stands at ₹ 1.23 lakh (1,22,999.5). The 25th percentile/ first quartile income was ₹ 65,500 whereas the 75th percentile income was ₹ 1,58,000. In terms of overall income distribution by district, Hooghly had the lowest average (₹ 70, 824) income whereas Coimbatore had the highest (₹ 1, 57,349).

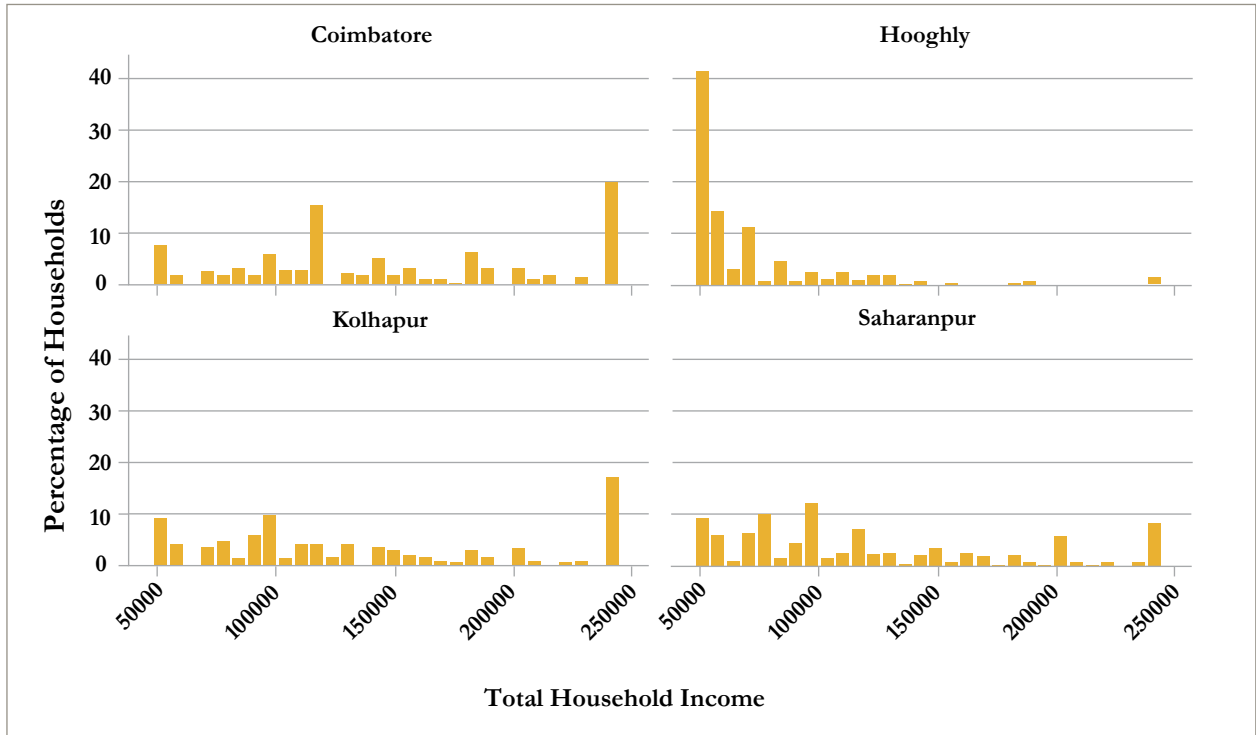


Figure 4: Household Income Distribution by Districts

Levels of Financial Inclusion

As represented in the following figures, more than 95% of study household had access to a bank account with the lowest bank account ownership in Kolhapur, although still at 92%. Further, 80% of female household heads of the households sampled were found to have bank accounts. The study also indicated adequate banking infrastructure in rural and peri-urban areas across the four regions with the mean distance from household to banks standing at 1.85 kilometers. Additionally, the study also revealed that 58% of the respondents owing bank accounts use their saving accounts regularly. On the contrary, the study indicated low levels of uptake of mobile banking services with only 13.20% of respondents owing bank accounts, using mobile banking services. In essence, the study indicates that though the levels of financial inclusion are encouraging in the rural and peri-urban areas, the progress on digital financial inclusion has been relatively slower.

Additionally, a district-wise analysis indicates high level of membership in Self Help Groups (SHGs) in Coimbatore, Hooghly and especially Kolhapur (34.4%). Non-banking financial institutions had relatively low membership across the region. Interesting nearly, 61% of respondents from Saharanpur were members of Microfinance Institutions (MFIs).

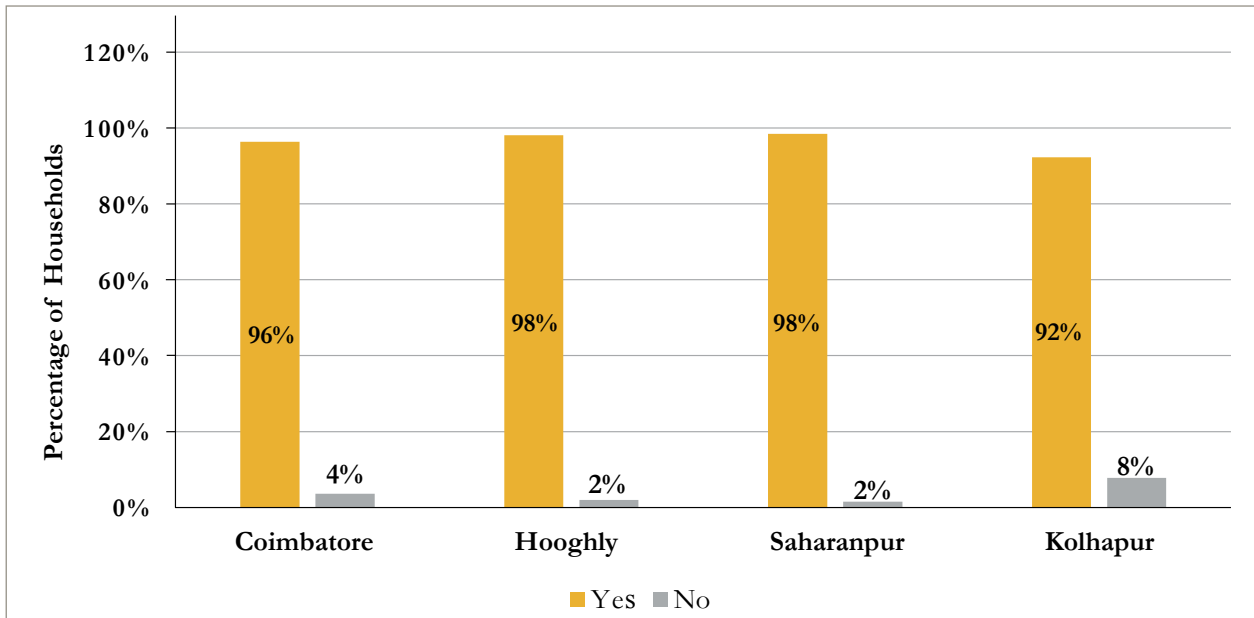


Figure 5: Level of Financial Inclusion: Ownership of Bank Accounts

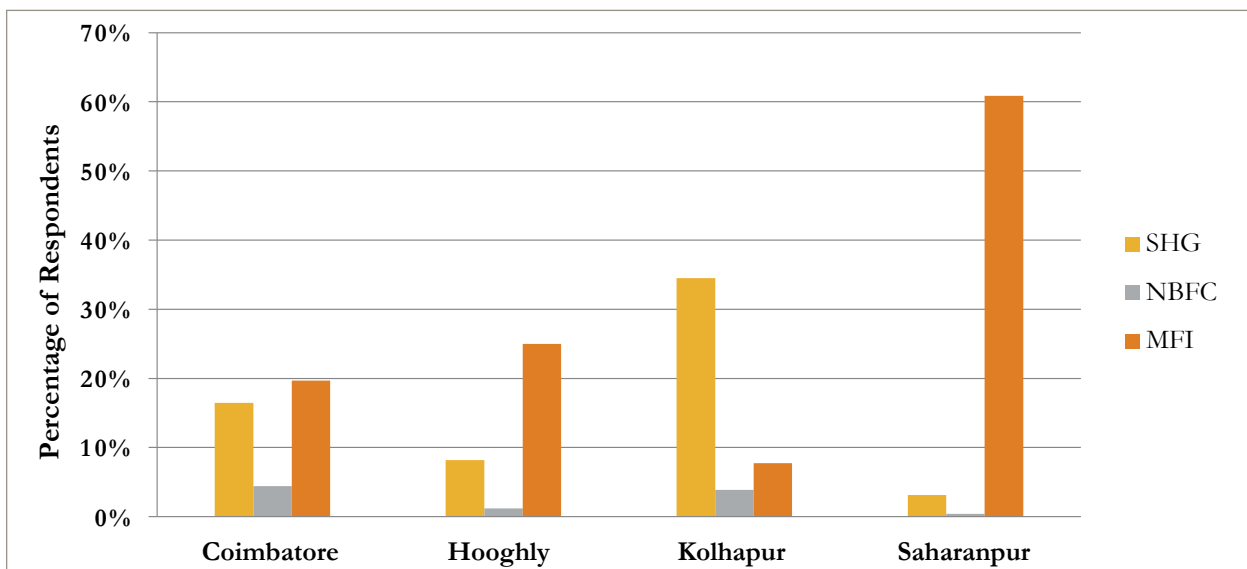


Figure 6: Membership to other financial institutions

Gold Portfolio

Possession and use of gold

The number of people with possession of gold was relatively high in most regions except for Saharanpur where only 43% of the study sample confirmed of having some amount of gold. The source of gold was found to be mostly jewelers (46%) and marriage gifts and other gifts (43%). The remaining 11% was found to be inherited or acquired from relatives. With regard to the use of gold, majority of the respondents indicated that gold in possession was used only for ornamental purposes. A few respondents also alluded to using gold for health shocks, educational expenses, financing marriages, smoothening of cash flow for business and repayment of debt. The following figure provides a district wise analysis of the possession and use of gold.

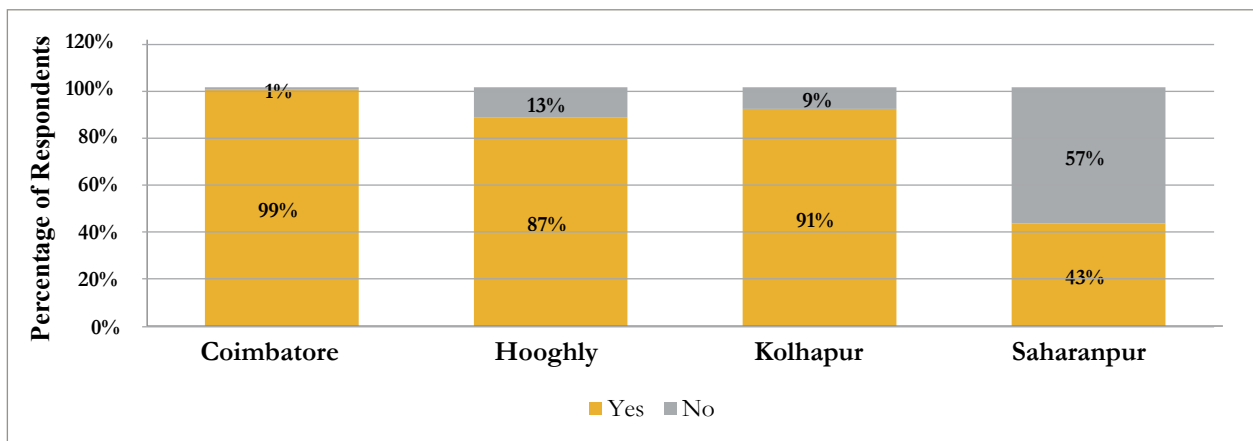


Figure 7: District Wise Possession of Gold

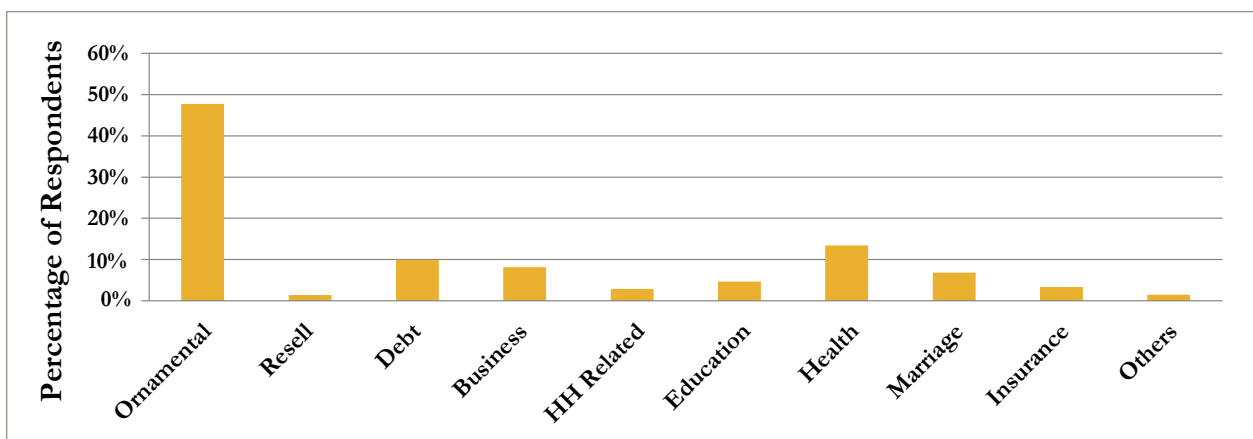


Figure 8: District Wise Use of Gold

Measure for emotional value attached to gold

Within the survey, we also asked our study respondents if they would be willing to sell their gold. Willingness was measured on a scale of 1 to 10, 1 representing least willingness and 10 representing the maximum willingness to sell gold. The following graph shows interesting variations across districts. More than 70% of study respondents in Coimbatore and Kolhapur responded as having least/little preference to sell their gold. Responses we received from our study respondents in Hooghly followed a normal distribution and generated a mix of responses from 1 to 10. The trends in Saharanpur though were the most interesting, as we can see from the following graph that people don't seem to have a very high sentimental value for the gold they possess and more than 90% of our study respondents assigned scores between 6 to 10, representing high willingness to sell their gold.

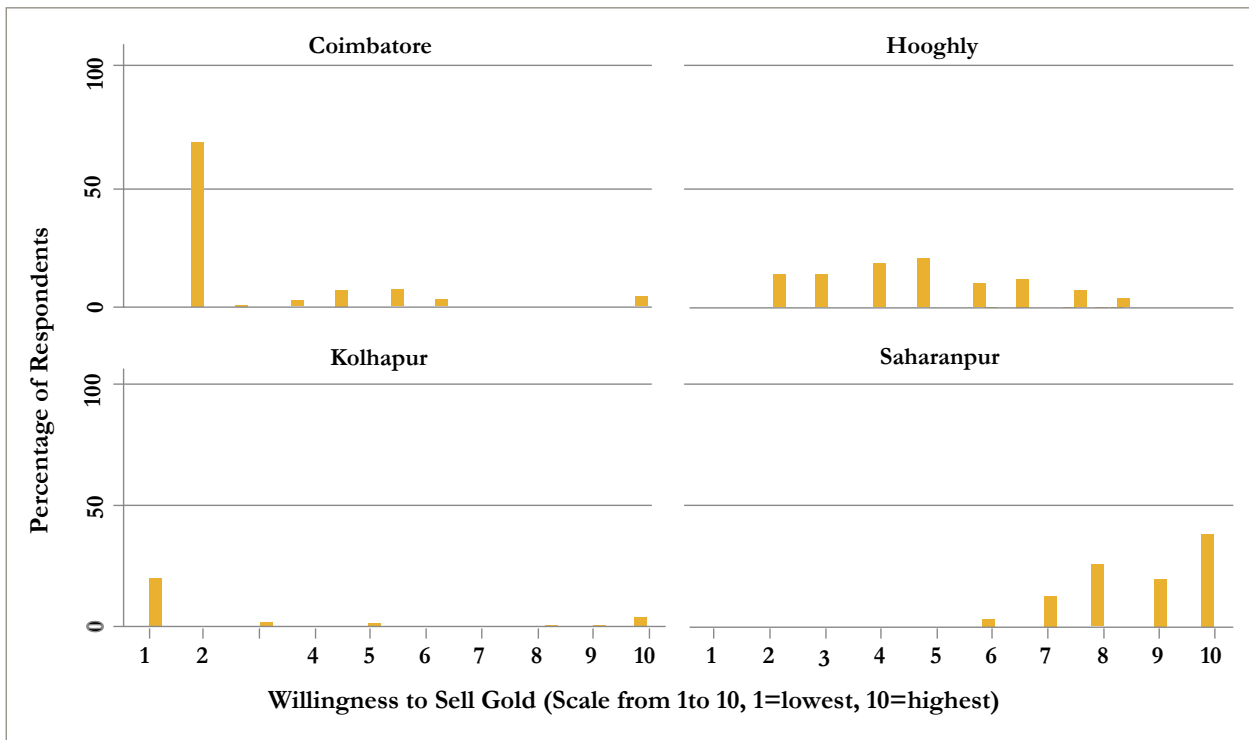


Figure 9: Willingness to Sell Gold by District

Uptake of gold financial products

In order to screen participants for our household survey, the field team approached households in designated study areas and asked the respondents if they had any gold backed financial products such as gold loan, gold savings and gold investment products. Only if the respondents said ‘yes’ to having any one of these products, did our surveyors administer the entire questionnaire. This is because access and usage to any of the gold-based financial products would be important to understand how households use gold as an alternative tool for their financial needs, i.e., using gold beyond ornamental purposes. Our survey team approached a total of 2,301 households to identify a final sample of 1,000 households across all four districts who responded to having acquired a gold backed financial product. Among all the different gold based financial products that are available in market, 44.37% of the total households approached confirmed having taken a gold loan. Thus, gold savings and investment products did not seem to be very popular among our study participants; less than 1% and 4% of the total households approached confirmed having a gold savings and investment product, respectively, perhaps indicative of the general trend in the Indian gold market. Lastly, the most commonly cited reason for not taking up a gold-based financial product was that they were not in need of any credit or that they did not wish to part with their gold, reflecting the sentimental value that Indians have for their gold.

Gold loans

All the respondents who confirmed of having acquired a gold loan were administered a set of questions on the purpose for acquiring gold loan, source of gold loan and features of the gold loan product, to better understand how gold was used as an alternative channel of credit.

Uptake and use of gold loans

A majority of the respondents did not have gold loans as they confirmed that at the time of the survey they did not need a loan. Additionally, there were also variations within regions in other reasons for the reluctance to take up gold loans. As figure 10 below indicates, in Hooghly and Coimbatore people were against parting with their gold. The lack of trust and information about gold related schemes was also found to be an indicative reason for the non-uptake of gold loans, particularly in Saharanpur and Coimbatore. Additionally, respondents in Saharanpur also revealed that they did not have requisite proofs to acquire gold loans. Finally, specifically in Kolhapur, respondents revealed that they prefer other investments as opposed to one which uses gold as collateral such as land based as it does not require them to physically part with an asset.

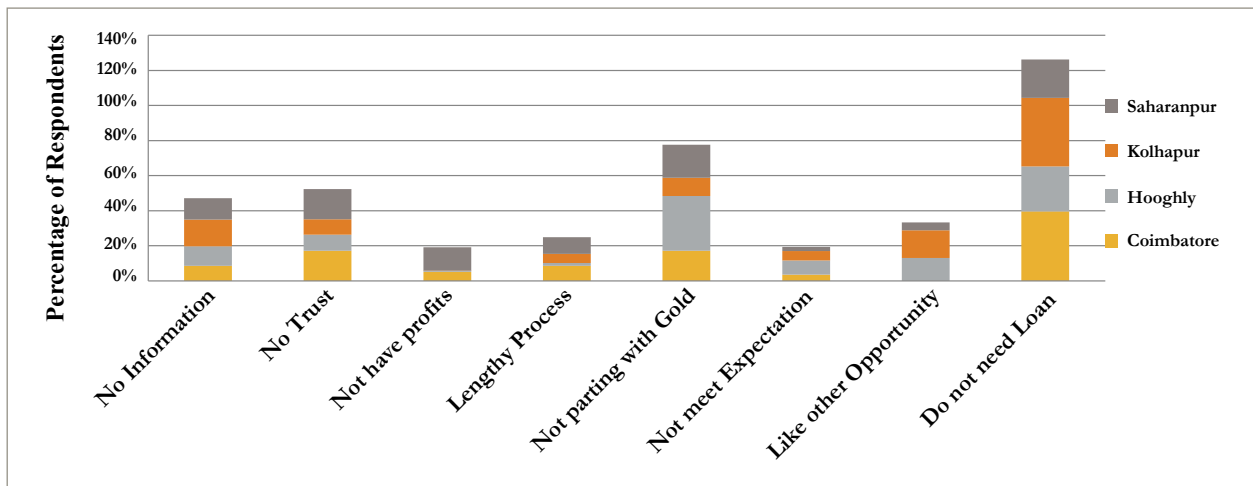


Figure 10: Reason for Non-Uptake of Gold Loans

Source of Gold Loans

A district-wise analysis indicates large degree of variation with regard to the source of gold loans. In Coimbatore most of the loans were acquired from commercial banks followed by pawn brokers. Similarly, formal financial institutions such as NBFCs and commercial banks seemed to be the most popular sources of credit in Kolhapur. In contrast to this, gold loans in Saharanpur and Hooghly were mostly acquired from informal sources such as pawn broker and shopkeepers.

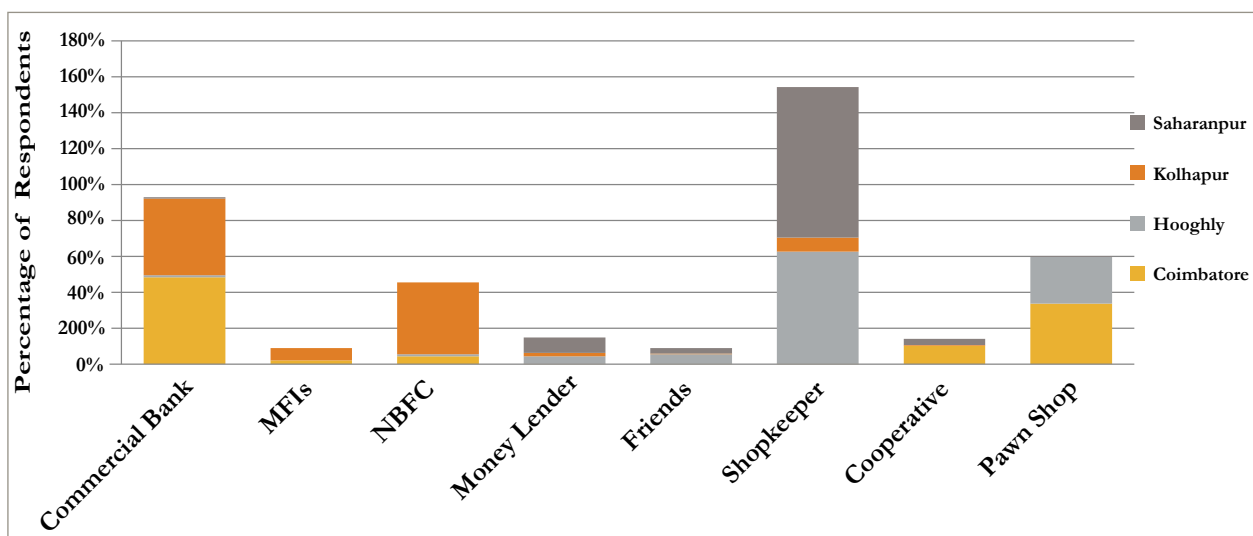


Figure 11: District Wise Source of Gold Loans

The above mentioned results are reflective of the levels of financial inclusion in the study districts. Districts with higher level of financial inclusion have greater access to formal financial institutions compared to districts with lower levels of financial inclusion. According to the CRISIL Inclusion Report⁸ published in 2015, the levels of financial inclusion measured in terms of branch penetration, credit penetration and deposit penetration was high for Coimbatore and low for Saharanpur and Hooghly districts. This could be a possible reason as to why respondents from Coimbatore largely had loans from a formal institution, whereas respondents from Saharanpur and Hooghly had acquired most of their loans from informal sources of gold loans was largely. Kolhapur however represents a different picture as majority of respondents from this district acquired loans from formal sources, in spite of low levels of financial inclusion in this area.

Use of Gold Loans

Respondents were asked detailed questions about their current outstanding gold loans for a maximum of two loans. Figure 12 provides a district wise analysis of the overall usage of both gold loans currently outstanding in households sampled. As can be observed from Figure 12, the major uses of gold loans as reported by respondents were debt repayment, health expenditures and smoothing immediate cash flow problems in businesses and households. Thus, gold loans, seem to provide ‘quick fixes’ to liquidity constraints and unlike most other loans are not primarily used for large planned expenditures such as purchase of a new house or financing education.

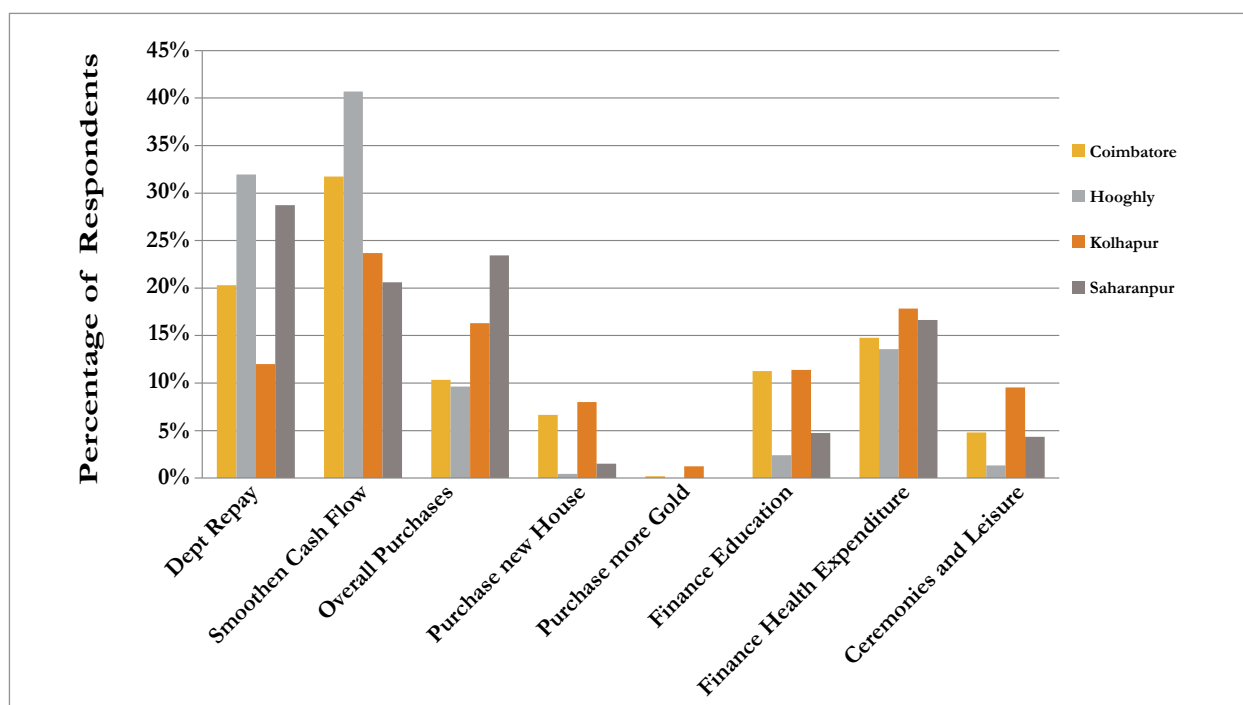


Figure 12: Usage of Gold Loans

Structure of Gold Loan Products

The following section lays in detail the structure of the gold loan product in terms of interest rates and loan size and also compares these indicators across source of loans classified as formal and informal. Formal loans are loans acquired from banks, MFI's, NBFC's, SHG's, cooperatives and other formal financial institutions, whereas informal loans are loans typically acquired from pawn brokers, moneylenders, shopkeepers, friends and relatives.

⁸ [Shttps://www.crisil.com/pdf/corporate/CRISIL-Inclusix-Volume-III.pdf](https://www.crisil.com/pdf/corporate/CRISIL-Inclusix-Volume-III.pdf)

The average gold loan amount acquired by the study sample across all four districts was Rs.31,387 at an average annual interest rate of 20 percent. However, there were considerable differences in both the loan amount and interest rates across formal and informal sources of these loans across the four districts.

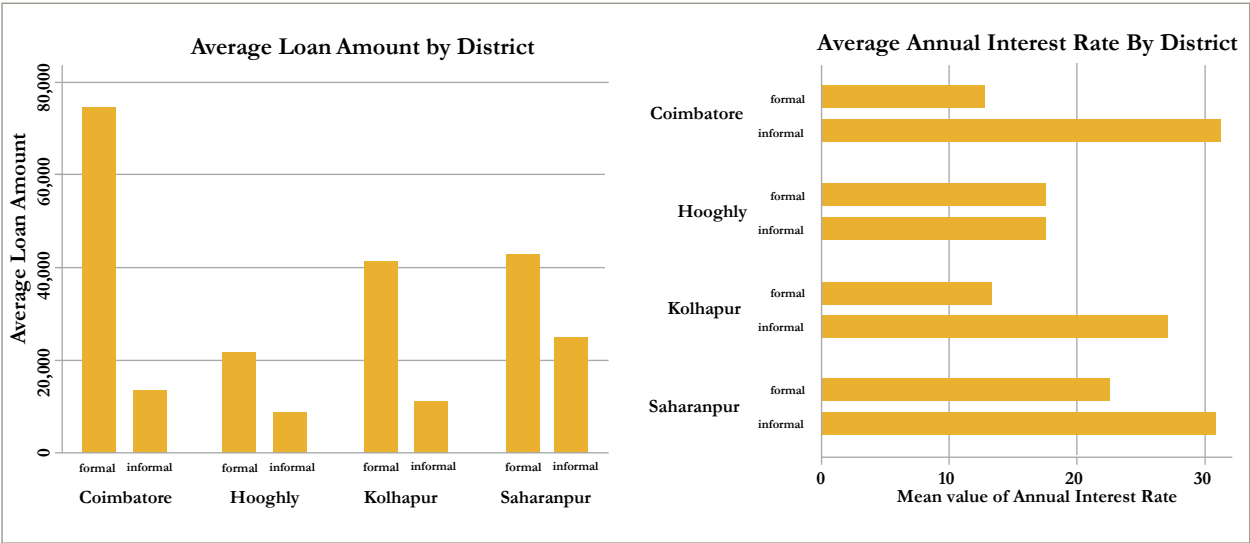


Figure 13: Average loan amount and average interest rate by district (formal vs informal)

Coimbatore has the highest average loan amount followed by Kolhapur and Saharanpur (almost at the same level) and Hooghly with the lowest average loan amount. Interestingly, formal sources of financial services have provided higher loan amounts in all districts at lower interest rates. We also see from the above figure that interest rates are higher for loans from informal sources compared to loans from formal sources, across all districts, except for Hooghly, where interest rates seem to be quite competitive between both formal and informal sources. These results are consistent with several other IFMR studies on financial services for the poor, where we see that informal sources provide lower loan amounts at higher interest rates. Please refer to appendix for district wise details on loan amount and annual interest rates.

Process for Acquiring Gold Loans

The study found that for 74% of 1000 respondents it took 1-5 days to complete the application process and for 24% it took 5-10 days. Thus, the study findings indicated that the time taken for processing applications for gold loans is relatively less. The study also aimed to understand some of the general processes required for obtaining a gold loan product and the levels of satisfaction customers received from both formal and informal sources. The below graph represents the ‘Know Your Customer’ norms required by different financial institutions. Our results are in line with general sectoral trends, wherein, formal channels such as banks and NBFC’s have a more rigorous KYC norm compared to shopkeepers, and other informal sources who do not need any proof or documentation to provide loans.

Perhaps due to the tight KYC procedures of formal financial institutions, among other factors, respondents who confirmed of having taken a loan from informal sources have a higher level of satisfaction with the service they received compared to customers of formal financial institutions.

On a scale of 1 to 5, where 1 represents lowest satisfaction and 5 represents highest satisfaction, more than 50% of respondents who took loans from informal sources gave a score of 4 and above compared to only 35% of respondents who took loan from formal source (figure 14).

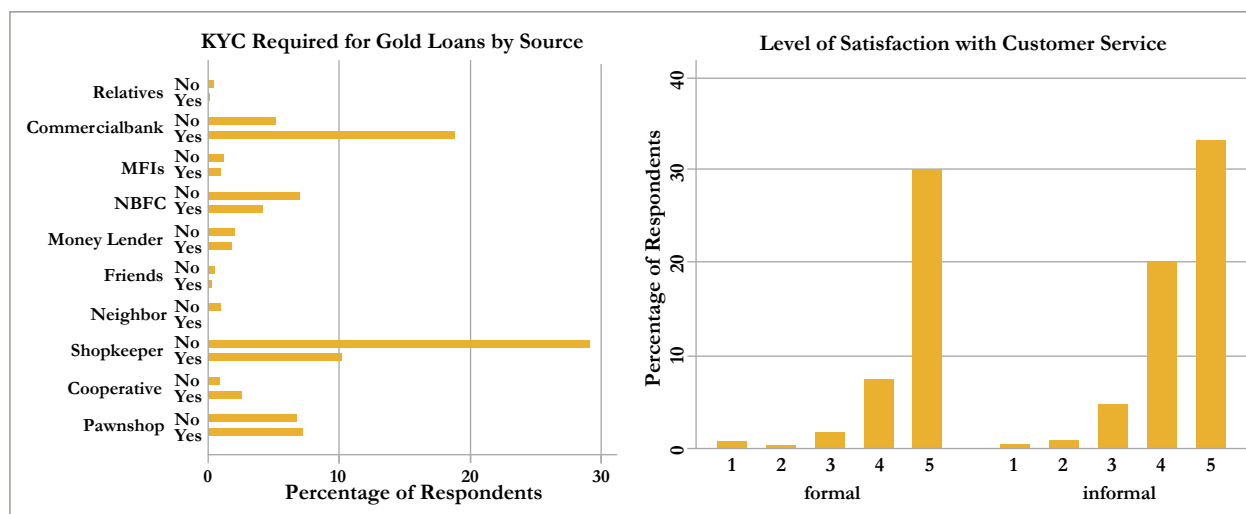


Figure 14: KYC Required for loans by source and level of satisfaction with customer service

Default on Gold Loan Repayment

When asked if the respondents have defaulted on their gold loan repayments at least once, we see a lot of variation in results across districts and across the source of loan. In general, the default rates are relatively lower for Hooghly and Kolhapur districts and higher for Coimbatore and Saharanpur

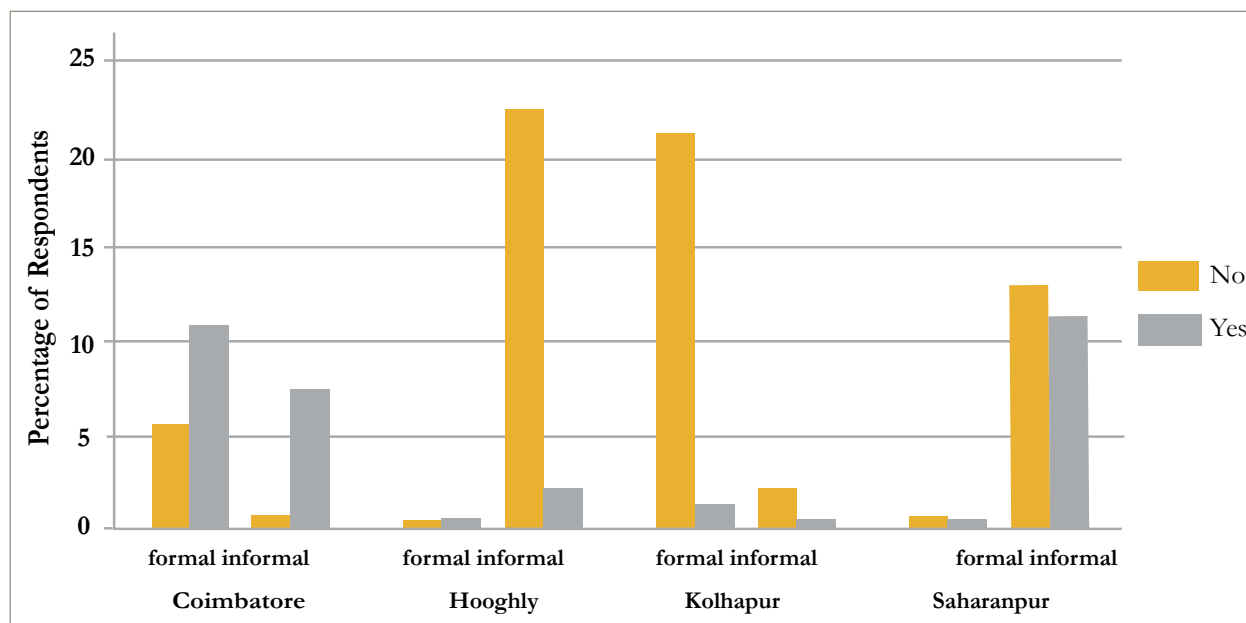


Figure 15: KYC Required for loans by source and level of satisfaction with customer service

Gold savings scheme

Of a total of 1000 respondents across all four districts, only 5 had taken up gold savings scheme. The majority of the respondents cited a lack of information and trust as the major reason behind the low uptake. Additionally, respondents also stated that gold savings scheme failed to meet expectations. These findings could be indicative of the inability of the gold savings scheme to structure themselves appropriately for the consumers of the Indian gold market.

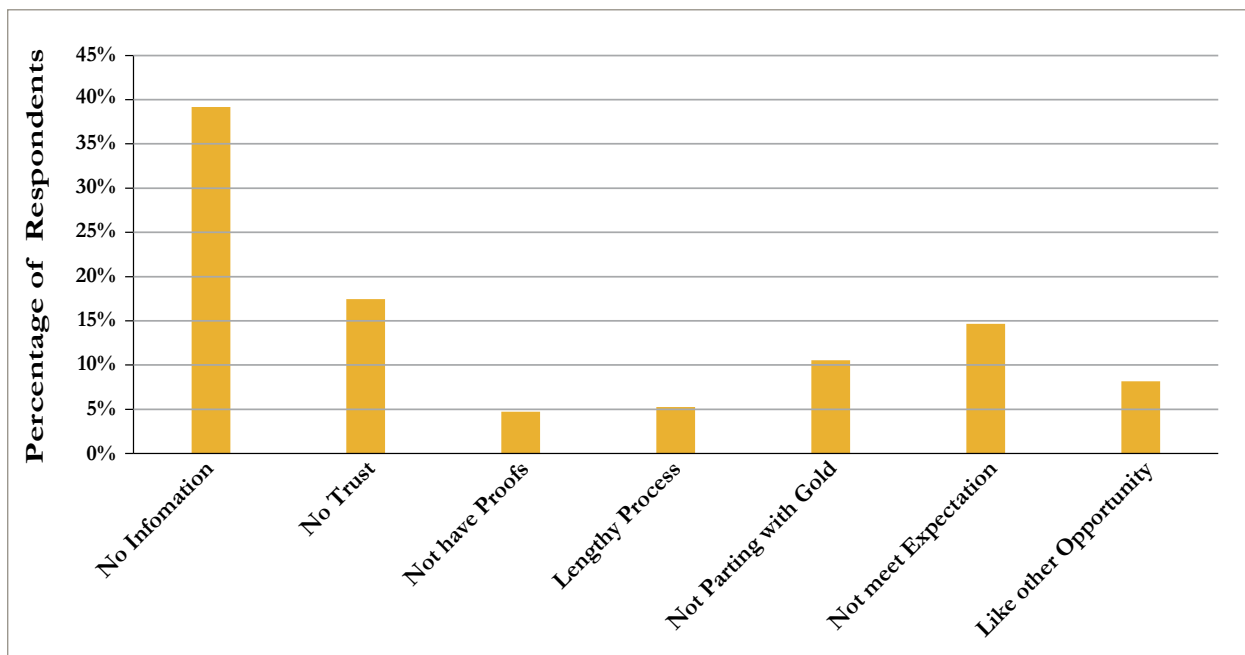


Figure 16: KYC Required for loans by source and level of satisfaction with customer service

Government Gold Schemes

One of the key aims of the study was to understand the awareness and uptake of government gold schemes, namely- Gold Monetization Scheme (GMS), Sovereign Gold Bond (SGB) and The Indian Gold Coin Scheme (IGCS). These schemes could play an effective role in reducing India's gold imports, further developing the Indian gold sector. However, the survey findings revealed extremely low levels of awareness for all three schemes among the 1000 respondents. Only a total of 55 respondents from the entire study sample were aware of one of the three schemes with 62% of them saying that they had heard about the scheme from their friend and 27% revealing their source of information to be television. As part of the study, the survey team briefed on the details of the three schemes to those respondents who had not heard of these schemes before. After having familiarized the respondents with the details of the three schemes the respondents were asked if they would be willing to invest in any of the three schemes. Of the total respondents, 62.5% respondents continued to remain averse to investing in the scheme. The remaining 37.5% were further asked questions regarding the preferences of scheme in which they would be willing to invest.

As per Figure 17, the respondents showed highest willingness to take up the GMS followed by IGCS and lastly the SGB. This was perhaps because the GMS was the easiest to understand and was close to a typical savings product. Whereas, SGB required some understanding of how a paper bond works and could have been difficult for the respondents to grasp. Further analysis indicated that the most common reasons for a lack of willingness to take up government gold schemes were a lack of information, a lack of trust and the inability of the government gold scheme to meet the requirements of the respondents. This was especially true for SGB. Apart from these reasons, respondents also highlighted the cumbersome nature of applying for these schemes due to its lengthy process and the need to provide adequate KYC documents, which might be challenging for our study respondents.

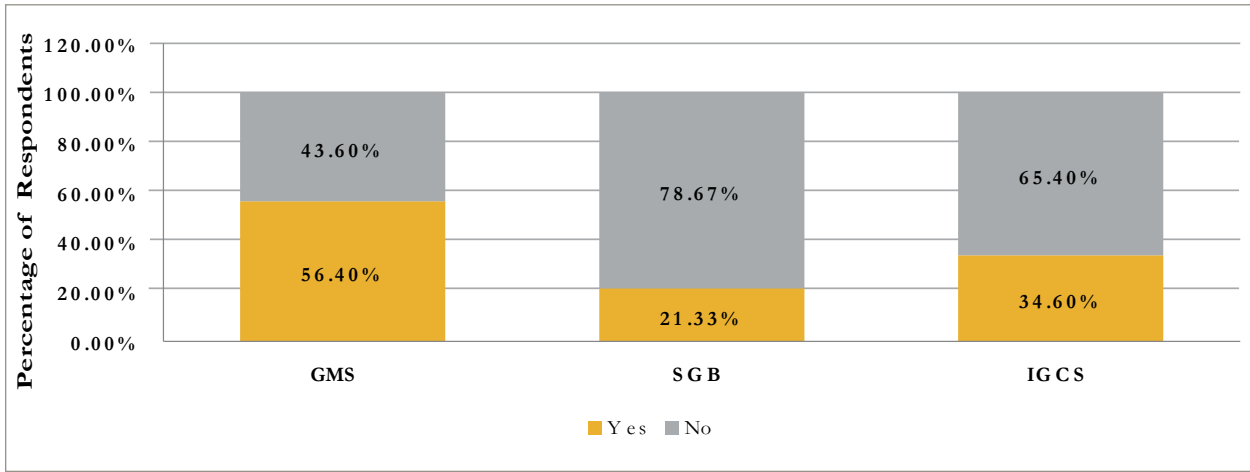


Figure 17: KYC Required for loans by source and level of satisfaction with customer service

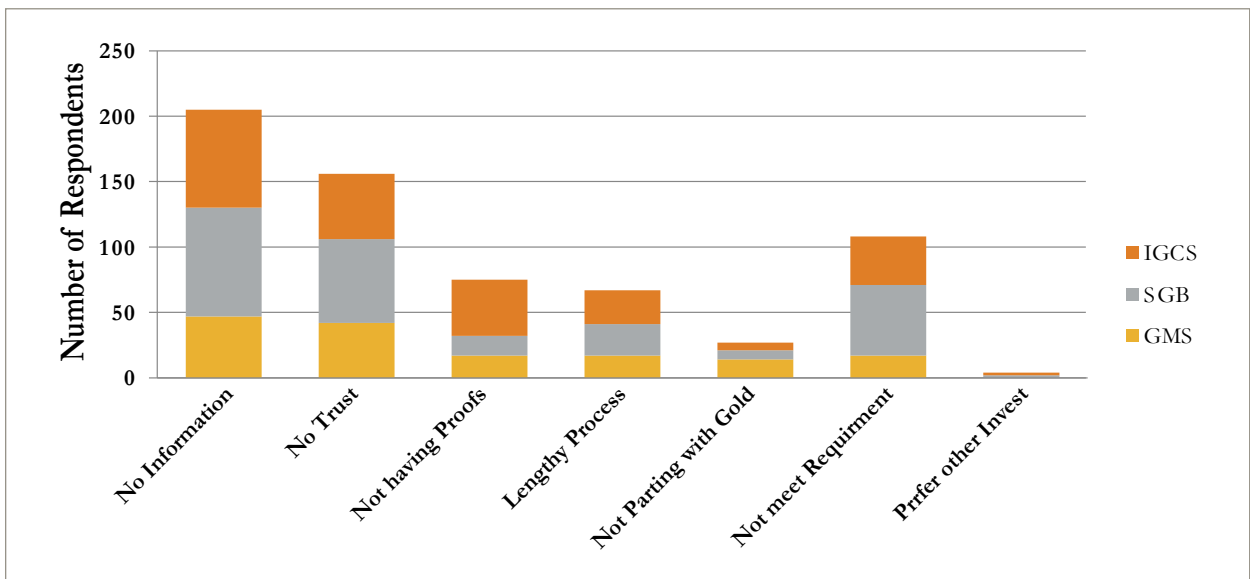


Figure 18: Reasons for respondents not willing to take up Government Schemes

One of the primary reasons cited for investing in the government initiated gold schemes among those who understood the product were more stable and safer returns, indicating that if marketed well, the product could have the potential to be a popular source of investment. This could be the proposed pitch which could be utilized by the government to increase the penetration of the three government schemes- structured schemes offer safe investments.

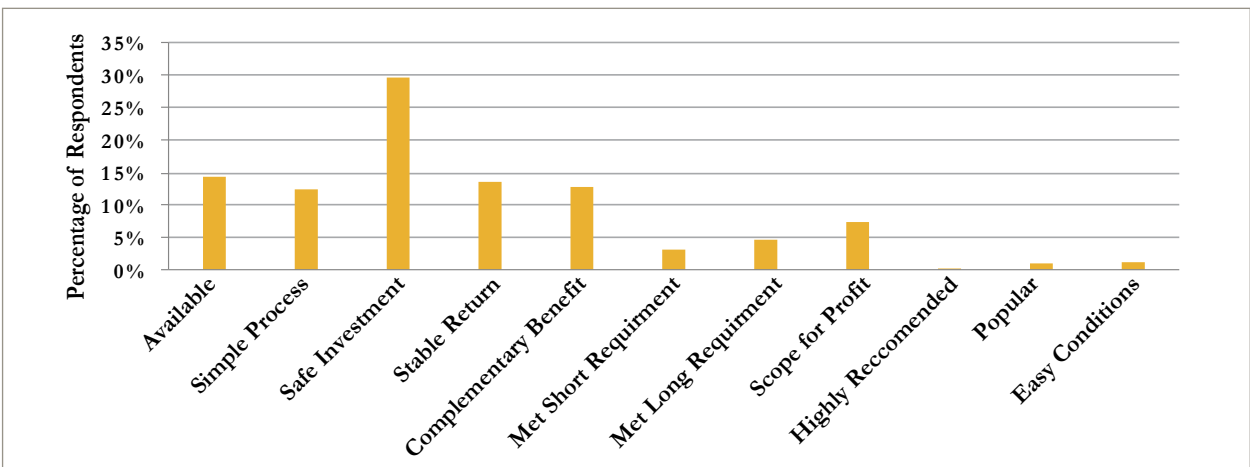


Figure 19: Reasons for Increased Willingness to take up Governmental Gold Schemes

The study set out to understand some of the key aspects of the Indian gold market in terms of the gold-based financial products it offers and how these form an alternative and important channel for providing financial services to low-income households. The study also looked at some of the landmark gold-based schemes announced by the Government and assessed people's awareness and willingness to invest in these schemes, contributing to the policy dialogue on the successfulness of the schemes.

Gold as a Financial Inclusion Tool

Through our research study, it is well established that gold provides a platform for accessing some of the most basic financial needs of the households such as savings and credit. Through our survey conducted in 4 districts, covering 1000 households and 4 regions of India, we gathered data on the different gold based financial products that people have access to and that they use to supplement their financial needs. We selected peri-urban areas that were on the periphery of the district towns and rural areas from those districts, to identify our final study sample. Given that the average annual income of the study households was in the range of 70,000 to 120,000 INR, our sample can be classified as relatively 'low income households'. As well close to 50% of the study households had jobs with irregular income. Given the segment of population we were dealing with, we expected gold to take a pivotal place in their total asset portfolio. We find that this is largely true for our study household although there were substantial district wise variations in the possession and use of gold and gold based financial products. While the study households from districts of Kolhapur and Coimbatore seem to be active consumers of gold and have a very high attachment to their gold, study participants from Hooghly and especially Saharanpur did not possess huge amounts of gold and had a relatively lower emotional value to the gold they possessed. However, when asked as to how those who had gold used it apart from ornamental purposes, we received varied answers such as use for educational expenses, use for financing household consumption and use for business expenses, which point towards gold being used for productive purposes (in the form of gold savings or loans).

Across all the three gold based financial products, namely, gold loans, gold savings and gold investments, the most commonly found and popular product was gold loans from both formal and informal sources. This is not surprising, as there has been a huge rise of the formal gold market in the financial system in the form of several NBFC's, MFI's and commercial banks that provide loans based on pledging gold as collateral. On the other hand, savings and investment schemes don't seem to be very popular and the most commonly cited reason for this among our study respondents was the lack of awareness about these products.

Segmentation of the Gold Loan Market

We find that the informal gold market, comprising of shopkeepers, pawn brokers and local money lenders dominates a large part of the overall gold loan portfolio of our study respondents. However, this is more so the case in Saharanpur and Hooghly compared to Coimbatore and Kolhapur, where formal sources such as banks, NBFC's and MFI's are the most common source of gold loans among study participants. However, consistent with previous research studies in this space, formal sources of gold loans, on an average, provide larger gold loan amounts at lower interest rates compared to

informal sources that provide lower gold loan amounts at higher interest rates indicating that there is scope for further development of the formal gold loan sector and if marketed and positioned well, could have the potential of offering better services at cheaper rates to those who are in need of these loans the most. Lastly, gold loans are primarily being used for smoothening household consumption and for repaying previous debts, although, it must be pointed that half of our sample also mentioned using it for productive purposes such as investment in business, education and household improvement and repairs.

Government Sponsored Gold Schemes

The study also aimed to assess the success of different gold schemes that were launched by the Government to draw an estimated 23,000-24,000⁹ tonne stock of gold into the financial system so as to provide a boost to the Indian gold market and reduce the burden of India's current account deficit due to heavy import of gold. Across all four study districts, there was very little or no awareness about the different gold related schemes that were launched by the Government. However, when explained about the product, the respondents expressed interest and willingness to invest in the scheme. Approximately, 56%, 35% and 21% of respondents expressed willingness to invest in Gold Monetization Scheme (GMS), Indian Gold Coin (IGC) and Sovereign Gold Bond (SGB) scheme, respectively. We interpret that respondents were most inclined towards GMS because of it being a simple product to understand compared to terms and conditions of IGC or SGB. Overall, we find that the schemes have not had much success and that none of the study respondents had enrolled themselves in these schemes. Our survey reveals that people were not aware of these schemes, which indicates towards lack of effective implementation of the schemes. GMS hinges on consumers, banks and quality assurance agents for the successful implementation of the schemes. However, the current business model for the implementation of these scheme relies heavily on banks, that are responsible for providing various other financial services to their customers and are therefore unable to give sufficient time and resources to the implementation of these schemes (Sahay, et al. 2017). Similarly, the IGC scheme requires the availability of the product/gold coins at various supply points, such as accredited jewellers who could promote the product among consumers, which is currently not the case. Therefore, incentives need to be provided to stakeholders at various points of distribution channel to promote these schemes in a better fashion. Government can also take steps to improve the distribution, availability and implementation of these schemes, especially in rural areas, to tap the large gold stocks held in rural India.

⁹ <http://www.gold.org/research/india-gold-market>

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APPENDICES

Appendix 1: District wise income

	Observations	Mean (Rs)	Standard Deviation	Minimum	Maximum
Saharanpur	254	122728.4	69436.12	5000	425000
Kolhapur	251	143645.5	88936.11	7000	490000
Coimbatore	240	157348.5	84947.58	10000	472000
Hooghly	256	70823.64	43287.15	3000	276000

Appendix 2: Analysis of identification proof and default – acquiring gold loan

Detail	Gold loan 1	Gold loan 2
% of respondents who provided proof	46.02%	77.66%
% of respondents who defaulted on payment	34.19%	60.64%

Appendix 3: Analysis of gold loan detail

Detail	Gold loan 1	Gold loan 2
Mean value pledged (Rs.)	52903.12	58218.09
Mean weight pledged (grams)	17.52921	22.25532
Mean Loan Amount (Rs.)	31387.86	34603.19
Mean Amount Repaid (Rs.)	1800.7	1954.255

Note: Respondents were asked about a maximum of two loans, some of the details of which are mentioned above.

Appendix 4: Average loan amount by district

District	Observations	Mean (Rs.)	Std. Dev	Minimum	Maximum
Hooghly	256	8455	11410	400	80000
Coimbatore	248	54278	80420	1000	100000
Kolhapur	256	37975	61943	2000	250000
Saharanpur	253	25490	34827	800	300000

Appendix 5: Average annual interest rate on gold loans

District	Observations	Mean (%)	Std. Dev	Minimum	Maximum
Hooghly	253	18	16.56	2	60
Coimbatore	243	19	11	1	60
Kolhapur	240	15	9	2	84
Saharanpur	255	31	14	2	60

Appendix 6: Uptake of three government gold schemes

	GMS	SGB	IGCS
Yes (% of people)	2.36%	2.25%	2.26%
No (% of people)	97.64%	97.75%	97.24%

Appendix 7: Synopsis of details presented in government gold scheme

Government Scheme	Details
Gold Monetization Scheme	Deposit gold for short, medium and long terms under the Gold Monetization Scheme. Interest is offered (2.50% yearly). Flexibility to withdraw investments/deposits as and when desired.
Sovereign Gold Bond	SGBs are government securities denominated in grams of gold. They are substitutes for holding physical gold. Investors have to pay the issue price in cash and the bonds will be redeemed in cash on maturity
Indian Gold Coin Scheme	The scheme will provide government verified gold coins. The coins will be available in denominations of 5 and 10 grams. A 20 grams bar/bullion will also be available. The Indian Gold Coin will carry advanced anti-counterfeit features and tamper-proof packaging that will aid easy recycling.

Appendix 8: Key Field Protocols for Primary Data Collection

1. Quality assurance- Steps were taken to ensure that the data captured is of required quality through training data collectors, piloting data tools, supportive supervision, performing random spot checks and collection of back check data
2. Acquiring consent- During data collection, the surveyors were frequently debriefed on ways to acquire consent to conduct the survey on a sensitive topic such as personal gold use- provide identification, respect confidentiality etc. Additionally, as a strategy respondents interviewed were requested to provide details of any other individuals having gold loans who may be interested and eligible to take the survey.

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