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## INDIAN GOLD LOAN MARKET SCENARIO IN PEER BANKS AND NON-BANKING FINANCIAL COMPANIES

Mrs. Lalita Hanabar  
Research Officer

Union Learning Academy Rural & Financial Inclusion  
Union Bank of India, Hyderabad, India

**Abstract:** Gold loan is one of the easiest and simplest ways to access credit, which requires no additional security or guarantee other than Gold itself. The recognition of gold loan as an asset with almost zero risk, its upwards movement of rates created ample of opportunities for gold loan lenders to come up with new age practices and strategies. Even though gold loan is a simplest form of credit, in a country like India people will easily invest on the Gold specially in southern part of the country and treat it as a treasure of pride and prosperity. At the same time, it is necessary to convince the customer to come forward for gold loans and to make them aware about the hidden benefits of it and it is one of the challenges as well as an opportunity to come up with new age techniques and products by the lenders to sustain in the market. The subject study is an attempt to analyze the present market scenario of gold loans in peer banks and Non-Banking Financial companies (NBFCs) based on the secondary data to know their stand in this dynamic market. This study employed different peer banks and NBFCs who are lending gold loans and the analysis of financial statements of the selected banks and NBFCs. The results of the study depicted that every gold loan lender is in a race to overtake the other via different new age approaches and practices in lending and promotion. Hence it can be concluded that only time has to decide who will be the front runner and which strategy will work better to make their gold loan glitter in the market.

**Key words -** Gold, Loans, Market, Non-Banking Financial Companies (NBFCs), Bank

**JEL Classification Codes:** G21, G23, M31, M37

### I. INTRODUCTION

Imagine an Indian wedding without gold ornaments, is it possible? the only answer which will echo again and again is No. Indians cherish not only their sanathana culture but also their affinity towards gold ornaments, which is part of each livelihood in India. Indians are emotionally attached to gold and Indian women cradling in the gold is common scenario in the festive and wedding seasons. Gold is not only part of every household in India, but it is a key component in every temple in the country. We can find many statues and temple shrines made up of Gold in the country and which is followed irrespective of the religions best examples are Golden temple in Amritsar, Punjab and Golden temple in Vellore, TN.

A relatively rare element, which had been used for jewellery, coinage and other arts recorded throughout the history, which was also often implemented as monetary policy via gold coins. Gold loan market exist in India in the form of pawn brokers since the ancient times throughout the barter system of trade.

According to World Gold Council, India is one of the largest consumers in the world and yet we can see less than 5% is pledged against gold loans from formal lenders. It opens bigger window to see gold as an important financing factor on pledge for financial institutions. Gold being wealth preserving asset, a hedge against inflation, acting as collateral against lending has ensured credit access to rural household. Even before the introduction of formal banking system Indian villages and small towns had their own ways of finance from local money lenders, who lend money based on pledge of gold or silver or utensils. Today gold loan industry had grown into a formal lending business with many market players with attractive offers and facilities against pledge of gold.

According to Chavda and Moradiya (2018) the origin of gold loan took place in the southern states where landowners and money lenders would traditionally lend against gold at exorbitant rates. This practice continued for several years in the unorganized sector with pawn brokers. Gold loan the quickest and simple access to credit in the financial institutions, yet it has an organized market size of mere Rs.3.45 lakhs crores as reported by Abhishek Sahoo (2021). In India gold loans costs (interest) vary from 7% to 24% and gold loan has proved as a handy loan for consumption as well as to pick up the fallen business at the time of pandemic in the country, yet we find lower penetration of formal lenders in gold loan business. In this regard present study is conducted to analyse the gold loan market with selected Banks and NBFCs and to know the present market scenario of gold loans.

**Objectives of the study:**

1. Analysis of the Gold loan market outlook of peer Banks and NBFC's.
2. Study of existing lending methods/techniques/operating procedures and promotion strategies in the peer banks and NBFCs.

**II. REVIEW OF LITERATURE**

Malarvizhi and Angel (2019) conducted a comparative study on gold loan offered by Public Sector Banks and Non-Banking Financial Companies, Madurai and reported that gold loan has become one of India's fastest growing businesses. Most people prefer public sector Banks when compared to NBFCs irrespective of the attracting features followed by NBFCs. This is because public sector Banks ensures security for the gold ornaments pledged, and the rate of interest charged is also less. Also concluded that the preference towards NBFCs in availing gold loan also is increasing now a day as they provide an adequate amount for the gold jewels pledged and the time taken to disburse the gold loan is even less to meet the borrower's expenses at the time of emergency.

IIFL Finance Limited (2022) in its annual report for financial year 2021-22 stated that 12.3 trillion is the overall gold loan market in India. Only 35% of the gold loan lending in India is done by the formal segment, rest 65% is still served by the informal segment.

A study in Vizianagaram in 2019 to find out the purpose of borrowing gold loan conducted by Dr. Badugu Arunashree, from Department of Commerce and Management Studies of Andra University, reported that that maximum people have taken gold loan for long run need with duration between 9 to 12 months and 2 years. She also concluded that the interest for the Gold as a venture is picking up force among the customers.

Sanjay Matai (2022) in his guest post on gold industry development phases reported that the outstanding gold loans in the organized sector in 2019 are estimated at 5.5% of total India's household gold holdings, indicating a low market penetration. As per the report of to NITI Aayog committee on Transforming India's Gold Market (2018), India is that second largest gold market with 800 to 900 tonnes per annum of domestic demand on average and accounts for 25% of world's gold demand. India's gold demand is primarily through jewelry (73.1%), Coins (6.9%), industries (1.4%), ETFs (2.7%) and bullion (15.9%). Rural India accounts for 60% of jewelry demand.

**III. RESEARCH METHODOLOGY****Collection of Data:**

Data has been collected from the annual financial statements, annual reports, and public domains of four public sector banks viz. Union Bank of India, State Bank of India, Canara Bank and Bank of Baroda, two NBFCs, who are leading in gold loan business such as Muthoot Finance Ltd. and Manappuram Finance Ltd as well as other private entities such as IIFL Finance Limited. and Federal Bank. Besides being different economic settings, these commercial financial institutions have been chosen because they operate under the umbrella of rules and regulations of Reserve Bank of India for lending of gold loans and having single marketplace that is Indian community. This way it is useful to analyze the gold loan business because of homogenous nature of the financial institutions selected under the study.

**Tabulation and Analysis of Data:**

For analysis and conclusion, the subject research paper uses secondary data available from the different public domains of the selected sample banks and NBFCs such as annual reports, press reports and information available on the official websites of the respective banks and NBFCs. Simple statistical tools are used to derive the per branch productivity and for easy comparison of the data collected.

**IV. RESULTS AND DISCUSSION:**

Gold loans are quite simple and handy loans that involve both schedule commercial banks and Non-Banking Financial Companies (NBFCs). The market dynamics for gold loans are changing now more than before as several market players are entering the sector and utilizing this as source of business and income. To create a vivid picture of stand of different market players in this sector, we have studied gold loan market via secondary data through annual report, quarterly performance reports and through websites of selected banks under the study viz. Union Bank of India (UBI), State Bank of India (SBI), Canara Bank, Bank of Baroda (BOB), Muthoot Finance Limited, Manappuram Finance Limited (MAFIL), IIFL Finance Limited and Federal Bank.

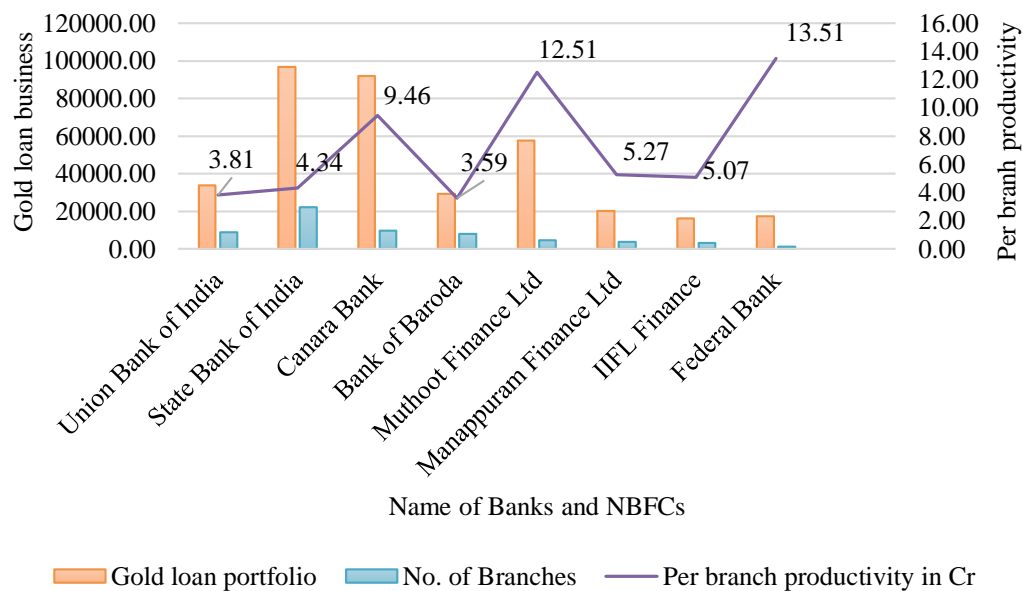


Figure 1. Gold loan market outlook in peer banks and NBFCs

Source: Annual reports of Financial Year 2022 and Quarterly reports of June-2022

As of 31.03.2022 Union Bank of India had gold loan portfolio of Rs.33826.00 Crores whereas other public sector banks under the study such as State Bank of India, Canara Bank and Bank of Baroda had business of Rs.96664.00 Crores, Rs.92054.00 Crores and Rs.29316.00 Crores, respectively. The leading NBFCs such as Muthoot Finance Ltd. and Manappuram Finance Ltd. were having gold loan business of Rs.57531.30 Crores and 20167.90 Crores, respectively. As per the annual report 2022 of IIFL Finance Ltd, Gold loan constituted 32% of the overall advances of the entity and which is Rs. 16228.00 Crores and Federal bank is having gold loan business of Rs. 17316.00 Crores.

These figures indicate that public sector banks such as State Bank of India, Canara bank and Union Bank of India have upper hand in the gold loan business in the banking sector and Muthoot is leading the pack among the NBFCs. Federal bank, with 1282 branches has per branch productivity of 13.51 Crore followed by Muthoot Finance Ltd. Canara bank also has a better per branch productivity of Rs. 9.46 Crore in comparison to State Bank of India (Rs. 4.34 Cr.), Union Bank of India (Rs. 3.81Cr.), Manappuram Finance Ltd. (Rs.5.27 Cr.) and IIFL Finance Ltd (Rs.5.07 Cr.). Union Bank India has a per branch productivity of 3.81 crore which is just above Bank of Baroda (Rs. 3.59 Cr.).

These disparity in the figures and market shares might be due to number of factors firstly, gold loan being a core business in NBFCs like Muthoot Finance Ltd., Manappuram Finance Ltd. and IIFL Finance Ltd. Secondly the early establishment advantages and higher number of branches across India for example State Bank of India and Canara bank on the other hand has a complete advantage in south India with Gold loan business due to it numerous southern branches. Along with these the promotion strategy and the product planning based on the customer's requirement also play a significant role in the upward or downward movement of the business curve of these entities.

#### Different Methods of Lending Gold Loans:

Pledging gold ornaments and availing loan is an age-old practice in India. After organized sector entered the market of gold loans, the lending process or methods of gold loan have undergone various changes and evolving into innovative practices in the competitive lending business. Few of such practices observed during the study are as follows:

- Lending at branch:** It is an age-old practice, where loan is sanctioned and disbursed at branch level after due verification, appraisal, and documentation process. This practice is followed in most of the financial institution.
- Online Gold loan lending method:** Customer will register to financial institution and post registration he has to deposit gold in the branch. A normal gold loan will be sanctioned and disbursed after due procedures for the first loan. For the next time onwards, customer can avail Top up over the same gold, or renew existing loan and/or fresh loan via online without pledging any extra gold subject to clearance of old borrowings. This practice is running in NBFCs such as Muthoot Finance Ltd. and Manappuram Finance Ltd.
- Doorstep lending:** Customer has to request/register for doorstep gold loan in official website or through mobile application or via internet banking service. On receipt of request concerned financial institution will send their representative to serve gold loan at doorstep. Gold appraisal, documentation and sanctioning of loan will take place at the doorstep of customer. Gold will be stored in partner bank's branches or own branches of the concerned financial institutions. Presently this practice is in practice in Muthoot Finance Ltd., Manappuram Finance Ltd., Federal bank and IIFL finance ltd.
- Takeover of gold loans:** One financial institution will take over the Gold pledged from other financial institution by paying up to day interest and principal on the consent of the customer. The Taken over gold may be re-pledged in the financial institution as security to new loan or may be sold and surplus amount on sale, after settling the new loan is given to customer.

**Key Practices and Promotion Strategies Followed in Different Banks and NBFCs**

1. Online application provision.
2. Special Gold loan scheme for Housing loan borrowers or sector specific facilities (MSME, Retail etc.)
3. Facility of toll-free number and SMS facility
4. Digital lead generation via official websites, mobile applications, and internet banking.
5. Attractive web pages and promotion flyers with display of interest rates in terms of Paisa or Per day or on Per Month basis
6. Doorstep lending via mobile applications
7. Promotion of insurance coverage for pledged gold
8. Special scheme for Southern states
9. Digital Top up and overdraft facility for gold loans

Most eye catching was Doorstep lending of gold loans. The non-banking market leaders under the study, Muthoot Finance Ltd. and Manappuram Finance Ltd. already leading in this approach. Apart from Doorstep lending, online application and online gold loan are a next new age thing we can see in the competitive market today. It is also noticeable that Manappuram Finance Ltd. is the pioneer in the Online Gold loan service since 2021 (Manappuram Finance Ltd, 2022). IIFL Finance Ltd. is also having Doorstep service of gold loan and it has tie up with other banks including Union Bank of India (IIFL Finance Ltd., 2022).

Focusing on promotional strategy in different banks and NBFCs, most are providing Toll free number, SMS Service for gold loan service. Along with that one more attractive way of promotion is expressing the Rate of interest in Rupees or Paisa on Daily or Monthly basis. For example, even if rate of interest in more than 10% per annum, it can be expressed in as 0.83% per month, this way customers will be attracted towards the gold loan. In this way every formal lender is striving hard to impress the customer and to gain business. It is noteworthy to mention that in most of the cases customer service and customer convenience has been taken care in formulating each of the promotional and lending strategy.

**V. CONCLUSION:**

Gold jewelry being pride of Indian household, its emotionally attached to the Indian society, due to this no Indian would like to sell their gold all at once. An alternative to this, loan against the pledge of gold ornaments, which is an age-old practice in India and is continuing. Presently gold loan market is led by one NBFC's and two public sector banks with lion share as compared to other Public and Private sector banks with multiple loan products with distinctive features, quick loan approval and disbursal with minimum documentation. Union Bank of India posted gold loan business of Rs.36234 Cr with year-on-year growth of 24.67% as on 30<sup>th</sup> June 2022 and SBI and Canara bank noted more than lakh crore gold loan business.

Hence, State Bank of India and Canara banks are having bigger share in the gold loan portfolio followed by Muthoot Finance Ltd. than the other financial institutions. Union Bank of India is having a better position in gold loan portfolio than Manappuram Finance Ltd, IIFL Finance Ltd., Federal bank, and Bank of Baroda. With new age approaches such as Doorstep lending, online lending and online lead generation, variety of promotions and marketing strategies, Banks and NBFCs are in the race of gold loan business for the betterment of their own inbuilt business.

**VI. LIMITATIONS:**

The study is limited to financial institutions under the study as it has not involved all the market players of gold loan business in India.

**VII. SCOPE OF THE STUDY:**

- The subject study will enable better understanding of the gold loan market.
- The study will also put light on the different strategies of promotion and lending methods of different market players in the study.

**VIII. ACKNOWLEDGMENT:**

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