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A Study of Factors affecting Gold Loan providing Banks and NBFCs with special reference to Indore Madhya Pradesh, India

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Abstract

As lending requirements have risen and consumer attitudes of gold loans have changed over time, the well-organized gold loan market in India has grown tremendously. The ability to finance the purchase of gold is a recent development in the market. Examining the demographic traits of gold loan providers particularly the staff involved in the research region and determining how conveniently they are in the jewelry loans business. A sample of 774 respondents was used in this study along with Likert's Scaling and applied Principal Component Analysis to determine the factors affecting gold loan sourcing and repayment of gold loan.

Key Words: Gold Loan, Principal Component Analysis

1 Introduction

Banks today provide their customers with a variety of loans so they can finance their aspirations. The gold loan is quickly becoming one of the most significant types of loans in the competition of different loans such as car loans, housing loans, education loans, etc. The Indian banking industry's financial system is essential to the nation's economy. It carries out a variety of tasks for the benefit of humans. Accepting deposits and making loans are the two main functions of a banking establishment. Banking institutions and non-banking financing companies make up the Indian banking financial system. They provide individuals with a range of credit options. The most popular loan was a gold loan since it disburses more quickly and has a less complicated application process. The recent arrival of the organised sector, particularly new entrants like Public Sector Banks and NBFCs, has increased the profitability of the industry and garnered widespread media attention. The marginalised elements of society are assisted in satisfying their finance needs by the gold loans provided by NBFCs and banks. In India, gold loans are extremely common. According to recent data, the amount of these loans increased significantly from over Rs 34,000 crore in March 2020

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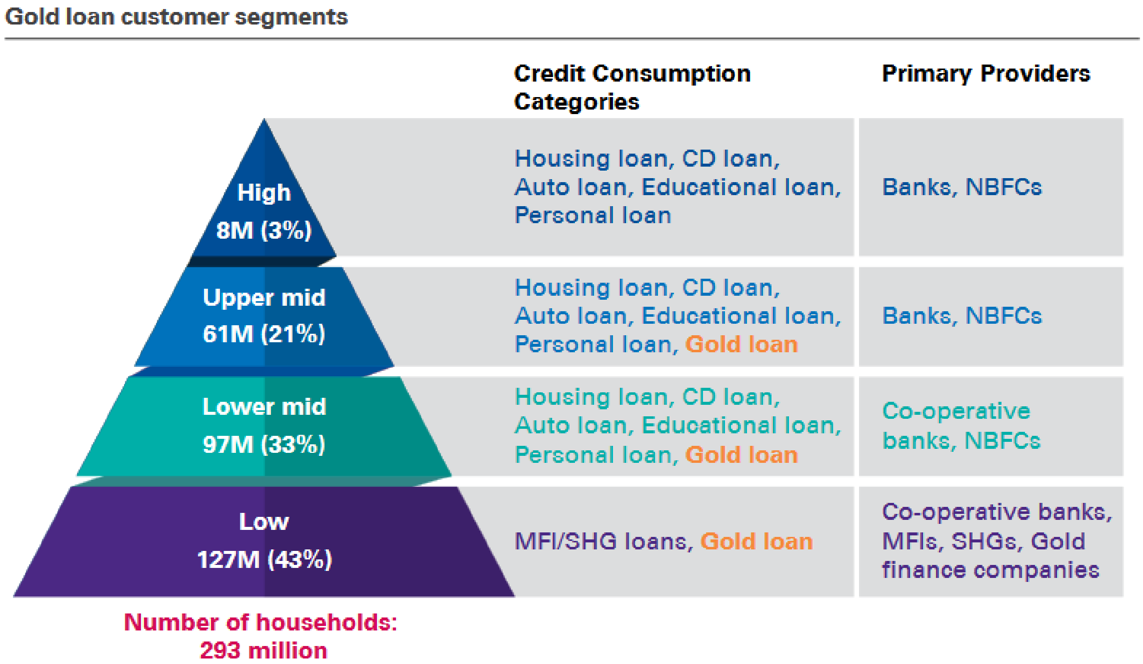
to nearly Rs 61,000 crore in March 2021. According to data from banking and investment services provider IIFL Finance Limited, it rose by a fifth to over Rs 74,000 crore by the end of March 2022. in accordance with the statista.com study with a 76 percent market share in the financial year 2022, banks controlled the gold lending market. On the other side, NBFCs saw a modest decline in their market share from the prior year. The Indian populace has always used gold as a form of investment. The nation is the world's second-largest importer of gold. Currently, secured loans with gold as collateral are primarily offered by banks and non-banking financial institutions.

1.1 Gold Loan Customer Segment



(Source: KPMG Gold Loan Report 2020)

1.2 Steps involved in getting a gold loan

A borrower often approaches these institutions to apply for a gold loan, and then the gold is tested for purity to determine its market value. For the purpose of receiving loan, a borrower often maintains their gold, weighing between eighteen and twenty-four carats, with the lender. Depending on the bank, the interest rates on gold loans can range from 7.35 percent to 29 percent annually. The loan-to-value (LTV) ratio, which is typically established by the Reserve Bank of India, regulates how much a consumer is eligible to borrow against gold.

1.3 Digital players

Although there are more and more choices for online gold loans, customers must still go to a bank or NBFC location to deposit the gold and have its purity checked. However, a sizable portion of the market for gold loans is still disorganised, leaving consumers vulnerable to excessive interest rates. With cheaper interest rates, flexible EMIs, and door-to-door delivery and pickup, several fintech businesses are now making an impact on the industry. The penetration rate of the gold loan market is anticipated to rise with the introduction of new players into this established industry.

The present study, which is based on primary data, examines Banks and NBFCs risks, which are further divided into two main categories: (a) factors identifying counterparty risks related to sourcing and repayment of gold loans; and (b) challenges related to customers of banks and NBFCs who are seeking gold loans.

2 Review of Literature

The scope of the current study can be better understood by looking at previous research, which also offers the framework for analysis and interpretation. A study like this is helpful in identifying the gaps in current knowledge. The current study attempts to review prior studies in order to evaluate the gold loans and retail lending by private sector banks. **Padmaja, D. V., & Antony, D. K. P. P. (2017).** The study's primary goals are to examine the socioeconomic and demographic characteristics of gold loan borrowers in the study area and to gauge how satisfied these borrowers are with the jewel loans provided by India's Scheduled Commercial Banks. **Churiwal and Shreni (2012)** provided an outline of rising demand for gold. They emphasised a number of features of gold loans, including the transition from traditional pawn brokers to NBFCs. Additionally, they discussed the growing significance of the Gold Loan to the lenders and borrowers due to its transition from conventional lenders to organised lenders. They also discuss other significant variables, such as the increase in borrowing costs brought on by the loss of the agricultural sector's status from loans and the growth of NBFCs through gold loans relative to organised banks. It is now the most efficient way to satisfy India's need for microloans. According **to Dnyanesh N (2012),** the organised gold loan business has expanded significantly over time as a result of shifting consumer perceptions of gold loans and increasing loan criteria. Consumer perception of gold loans has significantly changed. The author has talked about how consumer perception is shifting and how people are taking out more loans. He has drawn attention to the rising demand for loans. **Shrivastava, A., Singh, R. N., & Prakash, G. (2014).** Due to its lower interest rate and ease of application compared to other lending choices, gold loans are currently a growing trend that can be noticed in cities. Therefore, the primary focus of their study was on the variables that influence the market for gold loans in Indore. It brings emphasis to the crucial elements of a gold loan, such as its reputation, its customer support, its financial aspects, etc. According to the report, residents of Indore City are highly concerned about the type of lending institution, the interest rate on the loan obtained, the price of gold that is currently being sold, the ease of the procedures, etc. According to **Indian Institute of Banking and Finance (2010),** banks and NBFCs have begun luring customers with loans secured by pledges of gold jewellery. The jewellery is weighed, and an organised financial institution certifies its purity. the goldsmith Gold is valued based on the current market price. Although some institutions are offering enticing interest rates on gold pledged, the interest rate will be the same as that applied to Personal Loans. The gold Control Act's provisions are also taken into account. The Borrowers must pay back the Loan in equal monthly payments. The book provided accurate and comprehensive information about personal loans and gold loans. **George, J., & Kurian, A. (2014)** The noticeable growth of gold loan NBFCs, which was primarily driven by the rise in gold prices, is evidence that financial soundness indicators like the capital adequacy ratio, the share of non-performing assets (NPAs) in total assets, and the share of borrowing in total assets of banks are all well within the parameters set by the RBI. **Malarvizhi, P. V., & Angel, A. (2011)** their research examines how public sector banks and non-bank financing firms in Madurai compare when it comes to gold loans. This study focuses on the preference of the borrowers in obtaining a gold loan, the borrowers' level of familiarity with lending guidelines, the reasons why borrowers obtain a gold loan, the difficulties encountered by the borrowers in obtaining a gold loan, and the borrowers' level of satisfaction with public sector banks and non-bank financing companies.

3 Objectives of the Study

1. To identify the factors affecting in sourcing of gold loan.
2. To identify the factors affecting in restitution of gold loan.

4 Research Methodology

To accomplish the aforementioned study aims, a robust and broad research approach is required. To analyse the specified objectives, descriptive research is used. The research approach was based on Primary Data Analysis. The use of a questionnaire helped determine the result. The survey approach was widely utilised to collect data successfully and perfectly. The questionnaire was created to assess the numerous characteristics or aspects that have an impact on the banks' and NBFCs' gold loan business. The data analysis was mostly split into two sections.

4.1 Instrumentation

A questionnaire was created to collect replies from the personnel providing gold loan services and analyses were conducted on the staff members involved in both the sourcing and return of gold loans. The questionnaire was further divided into questions about the staff members involved in the sourcing and restitution of gold loans, questions about the demographics of those staff members (a total of 48 questions), and questions about the factors that influence both sourcing and restitution of gold loans (Total 33 Questions).

4.2 Validity of the Instrument

To evaluate the validity of the instrument. Validity tests were carried out based on their responses to determine the reliability and accuracy of the instrument. Bartlett's test of sphericity, Cronbach Alpha, and KMO measure of adequacy were used. The following table shows the results of the tests which was found significant at 5 percent significance level.

Part of the Questionnaire	No of items	Cronbach's Alpha	Kaiser-Meyer-Olkin	Measure of Sampling Adequacy Bartlett's Test of Sphericity
Part I	48	0.889	0.874	0.000*

Part I	33	0.883	0.768	0.000*

5 Data Analysis and Interpretation

Through the use of a structured questionnaire, the responses of the staff and working employees about collateral, loan quality, and bank risk in gold loans supplied by banks and NBFCs were gathered. The staff of the banks and NBFCs engaged in the financing of gold loans were given the questionnaire. The questionnaire was divided into three sections.

I. The first section included an explanation of the staff's demographic information.

II. The examination of the 48 questions pertaining to Challenges in Sourcing Gold Loans was covered in the second section.

III. The third and final section included an analysis of the 33-question section titled "Challenges in Gold Loan Restitution/Repayment."

5.1 Findings from the Staff/Officials' Demographic Information with Regard to Sample Selection

- In this study, the sample division of Gold Loan NBFCs and Staff based on Gender is balanced. There is no skew in the sample.
- This research's sample division of Gold Loan NBFCs and Staff based on Area of Posting is skewed. Compared to rural workers, more responders from urban staff made up the sample.
- The study's sample mix of senior, middle-level, and junior officials and staff is suitable.
- As a result, responses from a representative sample of officials and personnel at all administrative levels are included in the study.
- The majority of the staff responders work for NBFCs rather than banks. An attempt was made to display a representative sampling of the nation's overall gold loan industry.

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- Based on the explanation above, the study's sample was typical of the population. In order to determine a representative sample size, the study also used online sample size calculation tools.
- In relation to this study, the sample size of 724 is greater than the desired or necessary sample size.

5.2 Total Variance Matrix

Challenges in Gold Loan Sourcing: Analysis of Staff Responses from a Matrix Factor Analysis

Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	15.312	31.899	31.899	15.312	31.899	31.899	14.795	30.823	30.823
2	6.253	13.027	44.926	6.253	13.027	44.926	4.110	8.562	39.384
3	3.482	7.254	52.180	3.482	7.254	52.180	4.076	8.491	47.875
4	2.783	5.798	57.977	2.783	5.798	57.977	2.481	5.168	53.043
5	2.083	4.340	62.317	2.083	4.340	62.317	2.330	4.855	57.898
6	1.792	3.733	66.050	1.792	3.733	66.050	2.029	4.227	62.125
7	1.488	3.099	69.149	1.488	3.099	69.149	2.028	4.225	66.350
8	1.158	2.413	71.562	1.158	2.413	71.562	1.941	4.043	70.393
9	1.120	2.333	73.895	1.120	2.333	73.895	1.526	3.179	73.572
10	1.046	2.178	76.073	1.046	2.178	76.073	1.200	2.501	76.073
11 to 48	Traces								
Extraction Method: Principal Component Analysis.									

5.2.1 Identification of factors

Ten retrieved factors explain 76.073 percent of the total variance (information contained in the original forty-eight variables). Easy Purchasing. (Factor I): The first factor, which accounts for 31.899% of the total variance, is a combination of the consumer and financiers' experience in sourcing retail gold loans. Reduced risk overall safety on loan default; easier advertising; less stringent regulatory oversight; completely collateralized lending; lower probability of default (Factor 2). 13.027 percent of the variance is accounted for by the second factor and its subfactors. Gold Loan Features (Factor 3): Pre-loan payment, jewellery as security, and multipurpose use of gold loans account for 7.254 percent of the overall variance. Attractive Interest Rates (Component 4): The fourth factor, which includes interest rates and rate flexibility, accounts for 5.798 percent of the overall variance. Attractive Loan Period/Repayment Terms (Component 5): The

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fifth factor, which is accounted for by a high LTV and a cheap processing charge, contributes 4.340% to the overall variation. Fees and Processing Times (Factor 6) Customers find gold loans attractive because of their cheap processing fees, high loan-to-value ratios, shorter loan terms, and low processing fees, which is a feature of gold loans and is the sixth component and accounts for 3.733 percent of the total variance. Service/Staff Attitude (Factor 7) The seventh element, which accounts for 3.099 percent of the overall variance, is a friendly staff attitude that makes it simple to get gold loans and the need for them is growing. Clarity in sourcing gold loans was found to be factor eight, and it accounted for 2.413 percent of the overall variance. The ninth component, better risk management (Factor 9), which accounts for 2.333 percent of the overall variance, was discovered through the appraisal of gold and repayment terms. Less Paperwork Compared to Other Loans (Factor 10) This factor, which accounts for 2.178 percent of the total variance, is determined to be less paper work, faster transactions, and commission rates.

5.2.2 Total Variance Matrix

Total Variance Explained

Component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	9.283	36.495	36.495	12.199	36.967	36.967	5.227	15.839	15.839
2	3.219	12.656	49.151	3.876	11.744	48.712	3.649	11.058	26.897
3	2.216	8.713	57.863	2.704	8.195	56.907	3.230	9.789	36.686
4	2.000	7.864	65.727	2.719	8.239	65.146	3.131	9.487	46.173
5	1.533	6.028	71.755	2.207	6.686	71.832	3.113	9.433	55.606
6	1.414	5.557	77.312	1.689	5.118	76.950	2.963	8.980	64.586
7	1.244	4.889	82.202	1.574	4.771	81.721	2.749	8.330	72.916
8	1.078	4.238	86.439	1.369	4.147	85.868	2.407	7.294	80.209
9	.899	3.536	89.975	1.248	3.783	89.651	2.241	6.792	87.001
10	.815	3.204	93.179	1.083	3.282	92.933	1.957	5.932	92.933
11to33	Negligible								

5.2.3 Factor Identification

93% of the total variation is explained by the ten factors loading that were retrieved (information contained in the original thirty-three variables). NPA levels in gold loans (Factor I): Factor I, which accounts for 15.84 percent of the overall variance, includes the staff's experience with regard to NPA levels in gold loans. Loan fraud, the recovery process, and recovery activities make up the second factor, which accounts for 11.744 percent of the overall variance.

Post Disbursal Compliances (Factor 2). Impediments to Rehabilitation (Component 3): This factor, which accounts for 9.78% of the total variation, includes the use of credit ratings and barriers to recovery. Recovery Initiatives. (Component 4): The fourth factor, which includes the usage of agents and other recovery measures, is responsible for 9.48% of the variance overall. Promptness in Recovery (Factor 5): 9.433% of the variance is explained by this fifth factor. No need for a guarantor (Factor 6): This factor explains 8.9% of the overall variance. Easy Appraisal (Factor 7): The seventh factor, which accounts for 8.33% of the overall variance, consists of a shorter appraisal system and speedy recovery after NPA. Easy/Low Restructuring The eighth component, which accounts for 7.4% of the overall variance, is the ease of rescinding gold loans. Fewer Recovery Instances (Factor 9): The ninth factor, which accounts for 6.8% of the overall variance, is the number of recovery instances. Staff training requirements are minimal. The tenth factor, (Factor 10), is identified as the cause of 5.9% of the variance.

6 Discussion and Findings

6.1 Findings from the Responses of the Staff/Officials w.r.t. to Challenges in Gold Loan Sourcing Interpretation from the results of Mean, One Sample t-test and Factor Analysis

Based on the responses of the staff of the Gold Loan NBFCs/Banks, the study has deduced that there are three factors that may be utilised to understand the perception of the Gold Loan market in India. that is,

1. The simplicity of obtaining gold loans.

The study comes to the conclusion that, although being difficult and very competitive, the market for gold loans has the advantage of being simple to find customers for. This study has identified a number of factors that contribute to this ease of sourcing, the main ones being 1) the perception of gold as a liquid asset, 2) rising/constant gold prices well above the loan value, 3) collateral security for the loan, and 4) the ease with which the loan can be repaid in the event of default; whereas for customers, gold loan companies provide 5) quick and simple paperwork for gold loans, 6) faster disbursal, 7) simple foreclosure norms.

2. Attractive Commissions or Agent Fees for Finding Gold Loans.

The aforementioned aspects make sourcing easier for the agents or sourcing employees of the Gold Loans, and the attractive levels of commission in the Gold Loans make it a better source of employment/remunerations.

3. Growing Demand for Collateralized Gold Loans.

Additionally, a strong demand for Gold Loans has led to an ever-expanding market for Gold Loans as a result of the improving economy, shifting market dynamics, and potential pandemic effects.

6.2 Findings from the Responses of the Staff/Officials w.r.t. to Challenges in The Restitution/Repayment of Gold Loans

- The Banks/NBFCs concur that timely client repayment of gold loans indicates that EMIs or loan recovery are simpler. The majority of NBFCs and banks concur that their organisation has fewer issues with gold loan repayment, and they also say that the NPA issue with gold loans is much smaller.
- In contrast to gold loans, where the NPA recovery is substantially easier and higher due to quick mortgage sell-off and recovery in case of any slippages, mostly because of the high liquid value of mortgaged gold, customer fraud is also significantly less of an issue with gold loans.
- The NBFCs/Banks also concur that due to full collateralization of the loan, post-disbursal monitoring in gold loans is either negligible or non-existent.
- Due to the entire extent of loan collateralization, NBFCs/Banks need to make far fewer or no efforts to recover the repayment of gold loans than they would for other types of loans.
- The study comes to the conclusion that due to the entire extent of loan collateralization, loan recovery and post-disbursal monitoring are either very low or inattentive in situations of gold loans.

7 Conclusion

Based on the responses of the staff of the Gold Loan NBFCs/Banks, the study has deduced that there are three factors that may be utilised to understand the perception of the Gold Loan market in India. that is, **Easy Access to Sources for Gold Loans, Perceptive Agent Fee or Commissions for Obtaining Gold Loans and Growing Demand for Gold Collateralized Lending.** Also, the study concludes that the banks and NBFCs concur that rapid consumer repayment of gold loans indicates that collecting EMIs or recovering loans is simpler. The majority of NBFCs and banks agree that their organisation has fewer issues with gold loan repayment, and they also say that the NPA issue with gold loans is much smaller.

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