



India's gold loan market: Is the glitter fading?

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Foreword

Gold loans occupy a special place in the portfolio of Indian financial service provider's book. As one of the oldest forms of secured lending, gold pawning has been prevalent in India for centuries. Given the liquidity it offers, gold helps both the borrower and lender to complete transactions faster than all other forms of financing.

Traditionally known as a hyper local retail business, India's gold loan market has started attracting large investors since the last decade. India has seen emergence of gold loan specialty players commanding high market valuation during this time. Today this product is an integral part of all banks, NBFC's and other financial services player's strategy.

In this thought leadership publication, we cover all components of the gold loan as a product and as a portfolio. Right from product value proposition to evolution of gold loan companies. This publication aims to provide an overview of India's gold loan industry. Through the coverage on operational aspects and technology possibilities, it provides a new dimension of this product along with implications on India's financial inclusion targets.

Our team has conducted extensive research and data analysis to come up with projections dealt in this thought leadership publication. The team has also innovated a futuristic digital operating model that can be adopted by the industry with appropriate regulator mediation. The changes that are happening in the industry are fast and driven by futuristic disruptive minds. We hope the publication serves as useful read for all professionals and entrepreneurs connected with the gold loan industry.

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Industry overview



In India, gold has traditionally been a liquid asset and universally accepted commodity with continuous value appreciation over the decades. The yellow metal enjoys a special connection with Indians in terms of financial security, social status and rich cultural legacy. Thus, it is no surprise that India is one of the largest consumers of gold with an estimated total stock of over 23,000 tonnes in the calendar year 2016 (India's gold market: evolution and innovation, World Gold Council (WGC), January 2017), majority of which is with households. With the country's growing population and ever increasing disposable income, India's fondness and inclination for gold has also increased manifold. WGC expects the average demand to reach around 850 to 950 tonnes per annum by 2020 at an annual growth rate of 35 per cent, with two-thirds of this demand coming from the rural market.

Because of the emotional value associated with household jewelry, people rarely sell their gold to meet their immediate financial needs; as an alternative, people pledge their gold ornaments as collateral and secure a short-term loan.

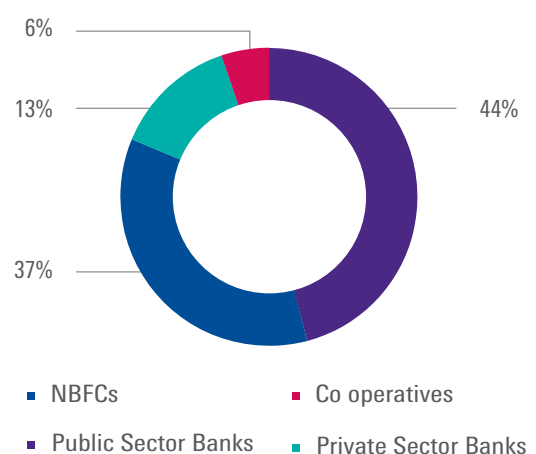
At a broader level, there are mainly two categories of gold loan lenders:

- Formal sector (banks, NBFCs, cooperatives)
- Informal sector (pawnbrokers, local moneylenders).

The origins of the informal lending sector and genesis of the country's propensity towards gold loan can be traced to the traditional moneylenders such as the Chettiers of Tamil Nadu, Kabuliwalas of West Bengal and landowners from across the country who have lent to villagers against the physical gold held by them. As per WGC

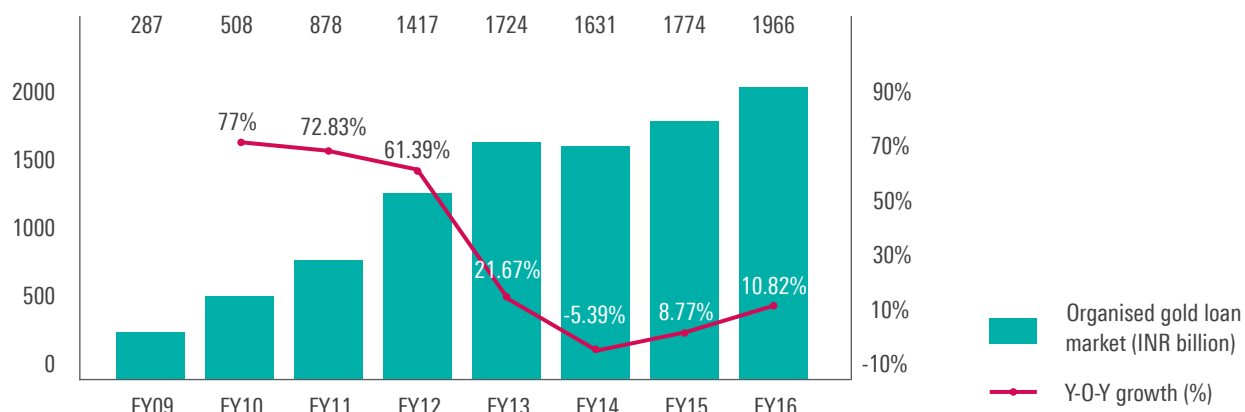
estimates, the informal lending space which is largely unregulated accounts for nearly 60 to 70 per cent of the total gold loan market. With the rising indebtedness of villagers and farmers to such money lenders coupled with the lack of regulation and exorbitant interest rates, the government wanted to redirect them towards the formal sector which mainly included banks and NBFCs. Key initiatives undertaken to ensure this was designating agricultural bank loans as 'Priority Sector Lending', introduction of a slew of measures regarding valuation, disbursal and storage of gold pledged by customers.

Share of organised gold loan market - 2016



Source: KPMG in India Analysis

Value of organised gold loan market in India



Source: KPMG's India Analysis

Today, the NBFCs enabled by their wide network and streamlined operations are becoming the customer's first choice by offering competitive interest rates, instant loans and flexible schemes



Product value proposition



Interest rates charged by the organized sector ranges between 9.5% to 24%. Unorganized sector charges around 26% to 50% interest rate.

Loan tenure is shorter compared to other loans. It is usually for one year.

Gold loan companies today offer very competitive schemes with a wide range of tenures, interest slabs and repayment options making it very attractive for the customer



Gold loan is a secured loan with usual ticket size ranging between INR 5000 and INR200,000

Loan amount can be used for any purpose: income generation as well as consumption

Loan disbursement takes as little as three minutes, with instant valuation of gold carried out by the lender

Key benefits that lie at both ends of the spectrum

Borrower advantage

- Unlock value of idle gold kept at home for productive purposes
- Best source of funds in times of emergency: Highest liquidity
- Minimal documentation and Know Your Customer (KYC): No need of strong credit history
- Multiple schemes offering varied tenures and interest rates
- Best value and greater choice in product offering as a result of multiple competitive lenders in the market.

Lender advantage

- Most secure asset: Completely collateralised
- Most liquid instrument in the market
- Gold loan as a product class has one of the lowest Non-Performing Asset (NPA) rates
- Can expect majority of borrowers to service interest payments on time
- Increasing market demand
- Lower tenures often help in reducing exposure to gold price volatility.

Growth drivers for gold loan



Overview

Although gold loan as a credit product is not a new phenomenon in the country, it is only in the recent past that Indians have started losing their inhibitions over pledging their family heirlooms to mainstream commercial lenders and leveraging multiple benefits, such as instant credit, flexible schemes, lower interest rates and minimal paperwork without the hassles of rigid credit appraisal. As banks and NBFCs offer gold loans at interest rates much lower than those of informal moneylenders, they have successfully targeted a new segment of customers who would have otherwise not taken a gold loan.

Growth drivers for gold loan

The growing penetration of gold loans in India can be attributed to a number of factors:

Exclusion from mainstream personal and retail loans by scheduled banks

Traditional banking products are not as accessible to rural and lower-income groups as they are to the relatively higher income groups. A farmer, for example, earns his living based on harvests. Upon taking a loan, his loan repayment ability would depend on factors outside his control: monsoon, harvest output and market prices. Credit scores would undermine one's effort to get normal loans during distress periods. This is the situation faced by a large portion of the Indian population engaged in farming and rural employment. Gold loans offer a viable solution in this situation. Since gold loans are fully securitised, lenders have the option to recoup the full principle amount (in most cases) if the borrower defaults – hence, there is no need for extensive checks on borrower's previous repayment records. The relative ease in obtaining a loan approval has boosted the popularity of gold loans.

Economic correlation

Research analysis by WGC has shown that a 1 per cent rise in income boosts gold demand by 1 per cent. India's bright future growth outlook implies the total gold stock will increase and people will tend to utilise the same to meet their credit demands.

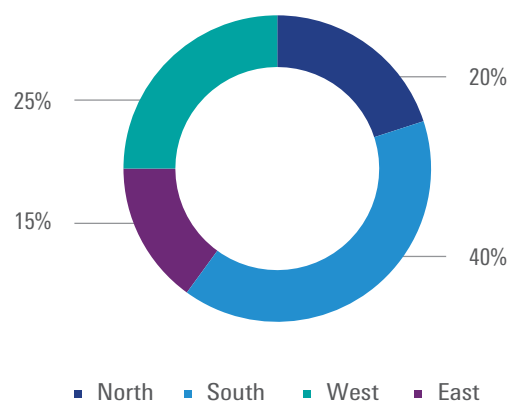
Changing attitudes towards applying for gold loans

It is not only the rural communities who are willing to put household jewelry in the market - acceptance towards using family gold for financial needs is increasing in the relatively untapped urban market. Using gold loans to meet household exigencies is gaining popularity in Indian cities and metros.

Geographical demands

The untapped markets in West and North India (which together hold almost 45% of gold in India, but have minimal credit penetration) reflects there is more scope for gold loans in the future.

Regional gold loan demand



Source: KPMG in India analysis

Existing gold held by rural communities

WGC estimates that about 65 per cent of the Indian household gold belongs to rural communities, who are the biggest purchasers of gold loan (India's gold market: evolution and innovation, WGC, January 2017). Unpredictability of the rain and harvest season means farmers become cash-strapped frequently. For them, unlocking value of their household gold is the easiest way to meet their financial obligations. Additionally, the rising consumerism in rural areas are leading to increased gold loans being taken for non-income generating purposes.

Availability of gold loan in extremely flexible terms

Unlike the rigid products offered by traditional banks, gold loan products are designed in a way that specifically meets the situation of the target customer segments. Disbursements are made within a quick time period after loan approval (some NBFCs position their gold loans with a turnaround time (TAT) of 3 minutes). A good number of loans do not have fixed Equated Monthly Instalment (EMI) facility - only the interest needs to be paid on a monthly basis while the principle should be paid at the end of the tenure. The ability to choose product features (repayment scheme, tenure) has facilitated increased gold loan penetration.

Supply side: Lower default rates

Low customer default rates has been one of the primary factors contributing to increased comfort of formal lenders in the gold loan space. Default rates typical vary within the range of 1 to 2 per cent which is much lower compared to the other traditional products offered by financial institutions. This makes gold loan an attractive product with higher return on assets.

Key growth drivers for public banks

- Share the highest trust factor with customers who intend to pledge their family heirlooms
- Lower interest rates: In the range of 250 to 500 basis points above the base rate
- Highest branch network leading to improved penetration in rural pockets
- Established gold storage facilities

Key growth drivers for NBFCs

- Focused business area with specialized capabilities
- High returns business segment due to the higher rate of interest
- Highly efficient operations
- Increasing use of technology
- Highly customised product offerings

Other key growth drivers include



Increased
cost of living



Urbanisation



Lowering
interest rates



Quick
disbursements



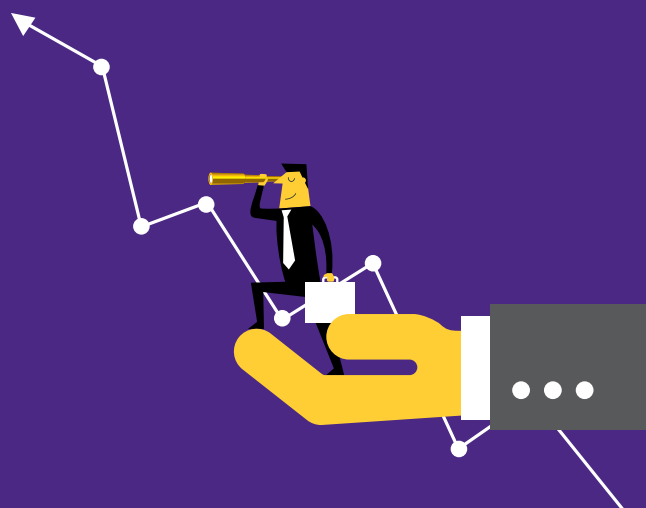
Ease of access



High rural
indebtedness



Evolution of gold loan NBFCs



Several gold loan NBFCs have become household names in the country with strong brand recall and high network expansion. However, the industry has been through a lot of challenging regulatory, credit and market related scenarios. It is now developing business strategies to delink the business from various risks as well as diversify the portfolio through addition of synergistic new business verticals.

Tracking the evolution



2008 - 2012

Phase 1: High growth

- Rapid growth phase supported by low cost of funds (eligibility under Priority Sector Lending)
- Rise of India's middle class, consumerism and urbanisation
- Positive economic macros: Rising gold prices
- Allowed to offer high Loan to Value (LTV)- up to 85%
- Convenience of access, quick disbursements and lower interest rates compared to moneylenders led to NBFCs becoming the customer's de-facto choice
- Industry witnessed AUM growth of ~95% CAGR while branch network grew 7x in same period.



2012

Phase 2: Regulatory shock

- In order to stabilise the proliferation and books of gold loan NBFCs, RBI intervened and released certain guidelines
 - Removal of PSL status – This immediately resulted in substantially higher borrowing cost
 - LTV capped at 60% - Weakened the competitive advantage against commercial banks
 - Restricted credit exposure to single gold NBFC to 7.5% from 10% resulting in lower bank funding
 - Prohibition of grant of loans against bullion and gold coins



2013

Phase 3: Gold loses shine

- From the beginning of 2013, gold prices reduced drastically globally.
- With the pledged gold having lower market value, customers walked away from the loans resulting in increased NPAs.



2014

Phase 4A: Recovery

- RBI increased the LTV to 75% thus creating a level competing field for banks and NBFCs

Phase 4B: Growth trajectory

- Key players started leveraging technology (online gold loan), personalised loan schemes, improved branding and targeted marketing
- Key action was to de-link gold price volatility to business profitability. This was done by introduction of shorter tenure products



2016 - 2017

Phase 5: Demonetisation

- Cash crunch in the market led to immediate shortfall in business
- The negative effect was short-lived with all major players adapting the digital payment model
- Digital eco-system is leading to increased credibility and tilting scales of gold loan business in favour of the specialised gold loan NBFCs.

Operational landscape



Overview of some operational parameters of top players by gold loan AUM

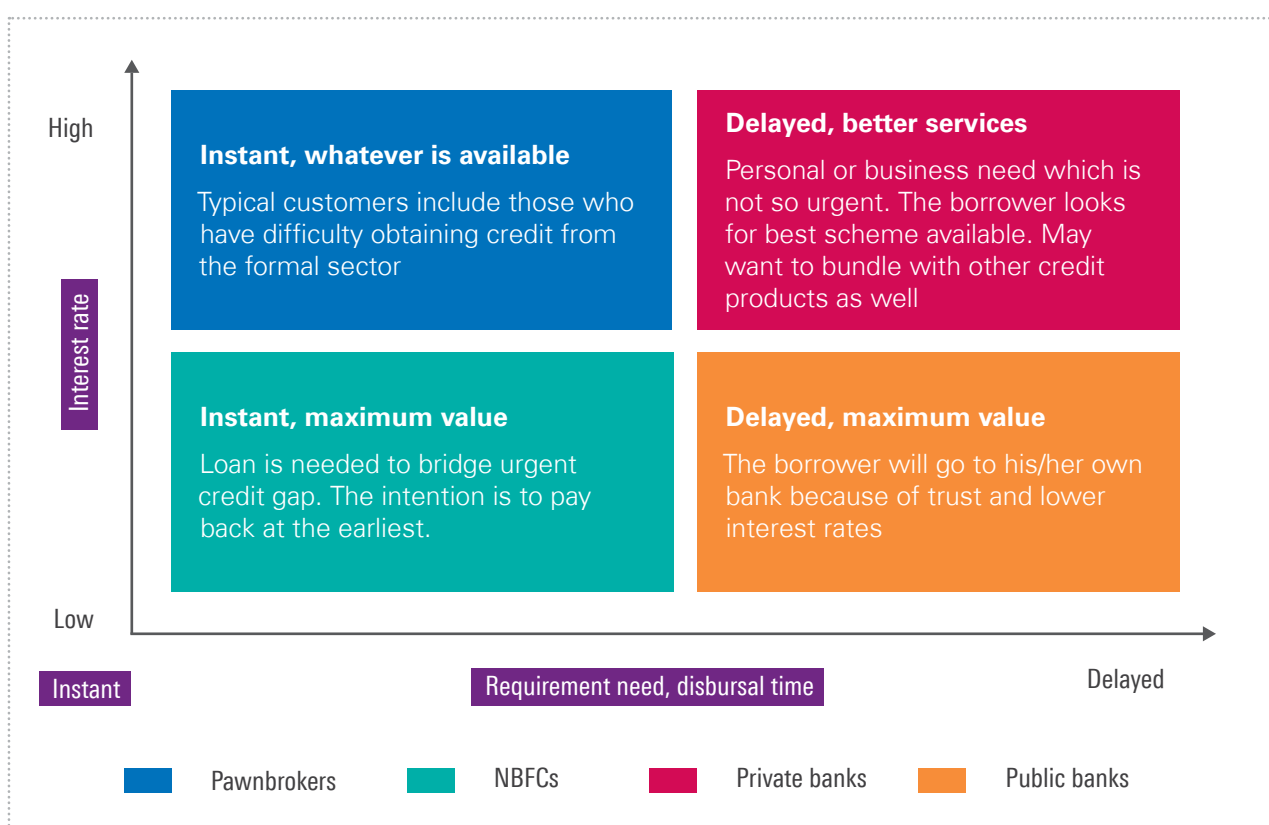
Parameters	Gold loan NBFC	Banks	Money lenders
LTV	Upto 75%	Upto 75%	Higher than 75%
Processing fees	Nil or minimal	Higher than NBFCs	Nil
Interest charges	18-24% p.a.	12-15% p.a.	25-50% p.a.
Penetration	Higher	Lower	Higher
Model of disbursal	Cash, electronic transfer (up to INR20,000), cheque	Cheque, electronic transfer	Cash
Working hours	Open beyond banking hours	Typical banking hours	Open beyond banking hours
Regulatory body	RBI	RBI	Not regulated
Fixed office space	Physical branch with dedicated staff for gold loans	Bank branches	No fixed place
Customer service	Core focus	Non-core	Core focus
Documentation	Minimal documentation, ID proof	Complete KYC compliance	Minimal documentation
Repayment structure	Flexible (no prepayment charges)	EMI based (prepayment penalty is charged)	-
Turnaround time	~ 5 to 10 minutes	~ 1 hour	>10 minutes

Understanding the customer segments

It is believed that the organised market had upwards of 60 million active gold loan accounts in 2016

Category	Typical profile	Typical purpose of loan
Salaried middle class	<ul style="list-style-type: none"> Regular salaried person with a fixed source of income Excludes daily wage earners 	<ul style="list-style-type: none"> Gold loan required to meet a genuine need Intends to pay back when he/she has a windfall, such as a bonus
Housewives	<ul style="list-style-type: none"> Own responsibility of gold in the household Sentimental attachment to their jewelry 	<ul style="list-style-type: none"> Need loan to meet household exigency Attach emotional value to gold, hence there is very low chance of default
Traders	<ul style="list-style-type: none"> Local traders dealing in grains, commodities, etc. Seasonal need of cash for inventory 	<ul style="list-style-type: none"> Need loan for working capital Short-term funds for purchase of inventory Opt for daily interest payment options
Micro-enterprises, self-employed	<ul style="list-style-type: none"> Small local manufacturing set-up Self-employed businessmen, such as kirana shop owners 	<ul style="list-style-type: none"> Need loan for working capital Capital expenditure for expanding business

Catering to varied customer needs



Leading industry practices



Market value

- All loans must be marked at market price of gold at periodic intervals
- Banks do so at quarterly intervals, while some NBFCs do so on a monthly basis
- Margin call given to customer if outstanding amount increases beyond realisable value of gold
- If margin exceeds limit, gold can be auctioned.



People

- Multiple evaluators used for high value loans
- Employees or evaluation partners are not allowed to participate in auction
- If external evaluator is used, his credentials or expertise has to be verified
- Branch manager to verify all transactions.



Operations

- Gold is generally stored at the lending branch itself to minimise transit costs
- Ownership of gold to be duly established
- Evaluation of gold to be performed in presence of the borrower
- Joint custodian policy to be enforced for handling of gold (during placing and removal from vault)
- Periodic revaluation and surprise audit of the stored gold.



Restrictions

- Restrictions are placed on giving loan against certain type of ornaments which might be difficult to sell off in auction
- Restriction on giving loan to certain segments where gold ownership can't be ascertained. For example, pawn brokers and daily wage workers

Key regulatory measures and other initiatives



Know Your Customer (KYC)

For verification purposes, a customer needs to submit the following: identity proof (either passport, voter's ID or driving license, along with passport size photographs), address proof (either electricity bill, ration card or telephone bill) and signature proof. The NBFCs are now allowed to make use of e-KYC which uses Aadhaar card validation. The move towards e-KYCs is meant to reduce risk of fraud and forgery as well as improve application processing speeds.

Loan-To-Value (LTV) ratio

The LTV ratio has been capped at 75 per cent for both NBFCs and traditional banks providing gold loan services. RBI regulations state that "Gold jewelry accepted as security/collateral will have to be valued at the average of the closing price of 22 carat gold for the preceding 30 days as quoted by the India Bullion and Jewellers Association Ltd". If the gold is of purity less than 22 carats, the collateral should be translated into 22 carat value and exact grams need to be valued. Loan against bullion, units of Exchange-Traded Fund (ETF) and units of gold mutual funds is not permitted. This standardisation and increased transparency of LTV calculations across the organised sector has meant healthy businesses for NBFCs.

Capital requirements

Deposit-taking NBFCs are required to have a minimum Tier-1 capital of 10 per cent while the Capital Adequacy Ratio (CAR) is 15 per cent. These regulations are meant to keep in check the rapid expansion of gold loan portfolios, which provide relatively higher margins compared to other secured lending products. Additionally, NBFCs which initiated operations before 1999 were also required to increase their minimum net owned funds to INR20 million by March 2017.

Non Performing Asset (NPA)

The time frame for classification of non-performing assets has been brought on par with banks. From the financial year 2018, a loan is termed as a NPA if interest is not paid for 90 days (3 months). In 2016, the time period was 5 months, while it is 4 months in 2017.

Verification of gold ownership

The NBFCs are required to have an explicit board-approved policy regarding the verification of the gold to be pledged as collateral. This applies when the customers wish to pledge gold which is more than 20 grams at any one time or cumulatively. The original receipt of purchase can be used for verification. In the absence of such a receipt, a suitable document that can properly explain and/or determine the ownership of the jewelry (for example, self-declaration letter) will do.



Demonetisation

Historically, the maximum amount of loan disbursed as cash was INR100,000. Following demonetisation and the move towards cashless economy, RBI has now capped the cash disbursement at INR20,000. This announcement was initially met with some hesitation. However, it is expected to have positive long term effects as the country adapts to the digital payment ecosystem.

Auction

When a customer defaults on a loan, a notice is issued to the defaulter to repay, failing which the collateral is sold in a public auction. A reserve price is determined for the pledged collateral. In case of a surplus from proceeds of the auction (that is, the pledged collateral fetches more than the amount outstanding), the excess amount is refunded to the customer. It is mandatory on the part of the NBFC to provide full details of the final outcome of the auction to the customer. In case of a deficit, the customer will have to pay the balance to recover the loss. In case of unsold collateral, the gold is usually melted and set for sale following legal frameworks. NBFCs are required to furnish details of the auctions in their annual reports.

Branch opening

The NBFCs have to obtain prior approval from RBI for new branch opening if their existing network exceeds 1000 branches. Further, no new branches can be opened without facilities for storage of gold jewelry. Basic storage infrastructure and minimum security facilities for pledged gold jewelry must be adhered to.

Loan repayment

Payment can be done in form of EMIs or bullet payments wherein the interest is paid at monthly intervals or as a total lump sum at the end of year.

Goods and Services Tax (GST)

With the GST on gold being lower than initial expectations, it has brought a wave of relief to the industry. Over the years it has become evident that quite a few retailers under-carat their customers leading to poor quality of gold being bought. The GST is going to bring greater transparency into the supply chain. Additionally, the latest slew of measures from Bureau of Indian Standards towards mandatory hallmarking is also going to help curb this issue. Essentially this can help reduce the amount of spurious gold entering the market.



Financial inclusion agenda: Gold as an incentive



In a survey conducted by WGC in Q1 2016, 63 per cent of respondents in India agreed with the statement: "I trust gold more than the currencies of countries." Nearly 73 per cent of respondents agreed with the statement: "Gold makes me feel secure for the long-term." Additionally, social compulsions influence every households to buy some amount of gold, which would accumulate over a period of time. This behaviour has been ingrained as a cultural norm over generations.

This could be a reason why gold related products have worked very well in India. Take the example of the 2008 pilot gold retail programme: the initial aim was to sell certified small amounts of gold coins through a network of 100 post offices in four states. The scheme quickly gained very high traction and the network grew to include 700 post offices across India by 2010. This scheme was, however, discontinued when the government banned the sale of gold coins.

Gold Monetisation Scheme

The government in the late 1990s also tried to monetise the idle gold held by Indian households by bringing it into use for the industry and to reduce dependency on imports. The Gold Deposit Scheme (GDS) was introduced in September 1999 to allow individuals to deposit gold at banks and receive interest in return. Further, the scheme was also exempt from capital gains, wealth and income tax. However, the minimum deposit of 500 grams was a huge deterrent for many individuals and households to avail this scheme. Between 1999 and 2015, only 15 per cent of gold was mobilised reflecting the inefficiency of GDS structure.

GDS was reintroduced in the Union Budget 2015 by Finance Minister Arun Jaitley in a new avatar - "Gold Monetisation Scheme", with the minimum deposit

size being reduced to 30 grams. This scheme offers an annual tax free-interest starting from 0.6 per cent (short-term: upto 3 years) to 2.5 per cent (long-term: upto 15 years).

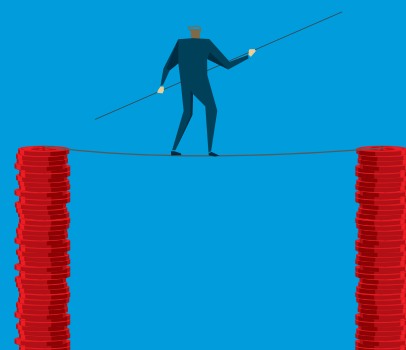
Gold Monetisation Scheme's performance review

The scheme has brought about a new perspective on gold for retail households who can now additionally view it as an interest generating asset and not just for times of emergency.

The scheme which was launched in November 2015, collected close to 2.8 tonnes of gold in the first six months. A closer review of the details reveals there were only 105 depositors with temples and institutions constituting around 1.5 tonnes (over 50 per cent of overall deposits). Since then the total deposits have increased to around 7 to 8 tonnes. The government is also considering allowing NBFCs to take gold deposits to boost the performance of the scheme and cater to a wider base of customers.

In our opinion, the Gold Monetisation Scheme may not significantly impact the growth of the gold loan market. The success of this scheme largely depends on participation of institutions and temples that hold large quantities of jewelry and would not mind melting it away. The unwillingness of retail participation can be attributed to the emotional connect to gold and they will continue to prefer pledging gold for their short-term credit requirements.

Key challenges faced by the gold loan industry



Low future outlook for gold prices

Despite the limited upmove in gold prices in 2017, the WGC expects the prices to reduce in the next two to three years. This is dependent on the state of the U.S. dollar and the interest rates set by the U.S. Federal Reserve. The volatility entails market risk and the possibility of gold loans going out of money. Lower gold prices also imply that the resale value of gold will decline. As a consequence, the borrower loses his eagerness to repay the loan and the default rate increases. Increased inventory and higher number of auctions would have a detrimental impact on the operational efficiency and profitability of the industry.

Auction proceedings

Time, effort and financials incurred in auction initiation, logistics in transit of auctionable pledges, resistance from customers towards auctioning their

gold and difficulty in finding appropriate bidders prove to be key challenges in disposing gold for recovery of outstanding dues.

Increasing regulations

Following the trend towards a cashless economy, the RBI has capped the amount of gold loan disbursable as cash to INR20,000 from the earlier INR1,00,000 in March, 2017 (RBI touch: Gold loan from NBFCs turns cashless beyond Rs 20,000, The Times of India, March 2017). At the same time, there is a move towards more uniform regulations among NBFCs and to level the playing field with traditional banks. The maximum limit for LTV for gold loans from NBFCs is 75 per cent - the same as that for traditional banks. In response to rapid business growth rates of NBFCs, RBI regulations aim at strengthening the loan repayment methods, tenure, storage and auction processes.

Fluctuations in gold price



World Bank Commodities Price Forecast (Nominal USD) Released: April 26, 2017

Security threats and risks of theft and robbery

To safeguard against theft or loss of collected gold, many expenses need to be met. These expenses take the form of installing safe vaults, in-house or outsourced storage models, electronic surveillance, internal and external audits and insurance.

Lack of financial literacy in rural areas

Prospective borrowers in remote areas are financially illiterate and even today are under the impression that they are not eligible for loans from the organised sector. Hence, financial illiteracy among people in these regions is a factor that hinders the growth of market to a great extent.

Millennials' attraction to alternative jewelry

The urban millennial population wants to experiment with their jewellery and are more inclined towards high-end designer and gem-set jewelry with a preference to platinum and diamonds. Buying patterns are shifting and the demand for plain gold jewelry is lowering especially in the urban regions. On the other hand, the World Platinum Investment Council (WPIC) in its Quarterly Report released on 9th March, 2017 mentioned that platinum saw a 45 per cent Y-o-Y increase in demand owing to growing popularity of men's jewelry. India is now the world's fourth largest platinum market and customers have the assurance of buy-back similar to gold ornaments. The rising investments by global companies in the Indian diamond and platinum jewelry markets stand testimony to this shift in consumer behavior. From an investment point of view, diamonds are now gaining almost equal popularity as gold (albeit the lack of abundant exit options that gold offers). Even the Indian Commodity Exchange (ICEX) is offering a Systematic Investment Plan (SIP) for retail buyers to acquire precious stones. It is important to note that for the last seven years, gold and platinum have appreciated by a similar extent. All these are indicators of slightly waning popularity of gold in urban markets.

Evolving savings pattern

The millennials are largely moving away from traditional modes of wealth creation towards alternative options (equity markets). On the other hand, the percentage of discretionary spending is also rising. RBI's recent recommendation that Indian households should re-allocate their investments away

from gold and towards financial markets is a sign of the alternate investment options gaining more traction.

Fintech in the lending space

Gold loan was traditionally the go-to option for those who could not secure personal loan due lack of formal credit history. Prime lenders today are partnering with fintechs who help develop credit score through alternate data (social media, messaging, utility bill payments) based on machine learning, natural language processing and artificial intelligence. This has made the process of obtaining an unsecured personal loan easier and more convenient.

Inadequate technological investments

While the gold loan NBFCs are striving towards building a minimum investment network and optimising operational efficiency, there is a huge gap in terms of technological investments when compared to leading private sector banks. A close review of the NBFC company reports reflect that a large chunk of investment is still being utilised to upgrade IT systems, implement Human Resource Management Systems (HRMS) and implement scalable Customer Relationship Management (CRM) systems. This is at a time when private banks are looking towards advanced blockchain deployment and partnership with niche fintechs to reduce their operational costs. Technology remains a catch-up space and NBFCs will have to look at technology as a differentiator in order to succeed.

Data security

Sanctity and protection of data is of utmost importance given the rise of coordinated cyber-attacks through malware and phishing targeted at potentially confidential client information. Key stakeholders need to ensure sufficient attention is given to such challenges and a strong network and data infrastructure is in place capable of warding off such attacks.

Organised gold loan market: Industry projections



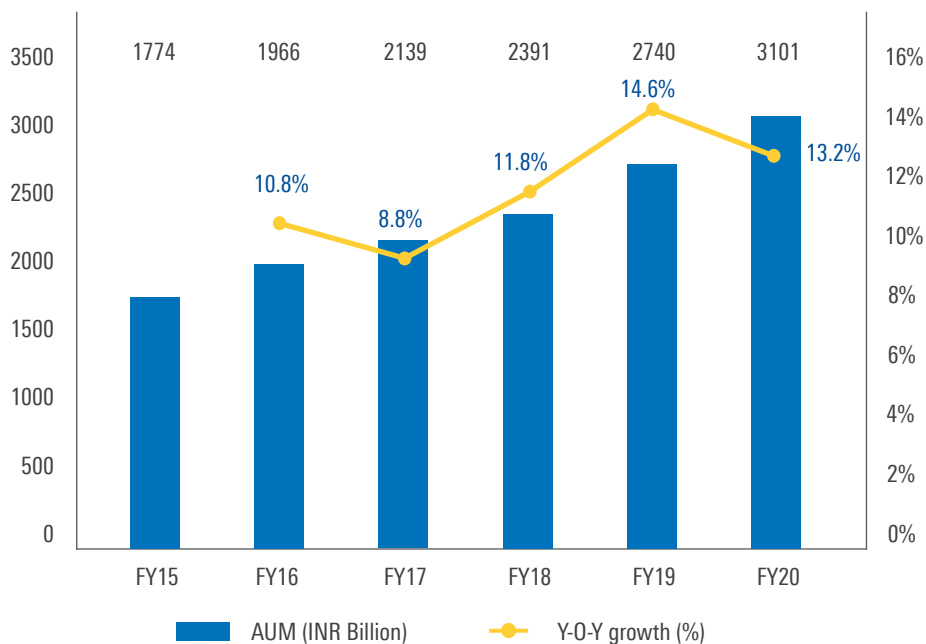
Industry outlook

INR3101 billion by 2020 at a three year CAGR of 13.17 per cent

Gold loan companies are expected to continue delinking the gold price volatility risk by offering more variants of lower tenure loan products (3 months to 6 months).

Increased competition from Small Finance Banks (SFBs) reduce the yield and players should invest in technology and automation to a great extent. The space is likely to see interesting partnerships with fintechs to help streamline and automate processes.

Organised gold loan market projection



Technology as a growth lever



Traditionally, gold loan businesses have run on a branch based model both by NBFCs and banks due to the physical collateral involved which necessitates at least one customer visit to branch for valuation and storage. The model also includes a lot of physical paperwork – hence, the related inefficiencies are inevitably a part of the process. However, with technology interventions, there is an opportunity to make a lot of these processes efficient and paper free. The Indian banking sector has seen incremental

transformations from physical and time-consuming procedures to safer and more digital processes. Examples include the penetration of self-service kiosks, gold valuation machines with minimal human intervention, e-KYC and loan disbursement and repayment methods using e-wallets or prepaid cards. There is also a growing trend towards using social media profiles to assess the credit worthiness of potential customers and increased investments in biometrics for security purposes.

Process	Conventional method	Possible technology intervention
Lead generation	<ul style="list-style-type: none"> Branch walk-in Sales staff Call centre and website queries 	<ul style="list-style-type: none"> Self-service kiosks in branch and public locations Mobile application based CRM for field sales staff
Gold evaluation	<ul style="list-style-type: none"> Manual valuation by employee or empaneled valuer Manual entry of weight and purity to loan system after valuation 	<ul style="list-style-type: none"> Gold valuation machine without manual intervention Data can be directly passed to loan system for processing
Loan processing	<ul style="list-style-type: none"> Manual entry of customer data Paper based KYC Physical photograph, signature/thumbprint 	<ul style="list-style-type: none"> Tab/kiosk data can be directly used in loan system e-KYC using Aadhaar database Biometric authentication
Gold storage	<ul style="list-style-type: none"> Branch vault storage in zip-lock packets with tracking numbers Security guard, CCTV and alarm for security 	<ul style="list-style-type: none"> Barcode or radio frequency identification (RFID) tags for easy tracking and retrieval E-surveillance system with centralised security monitoring
Loan disbursement	<ul style="list-style-type: none"> Cash disbursement for loans below INR20,000 and cheque/account disbursement for greater amounts 	<ul style="list-style-type: none"> Disbursement in overdraft (OD) account with a debit card for easy operations Small ticket loans in pre-paid wallets/cards
Collection	<ul style="list-style-type: none"> Branch based cash/cheque collection model Repayment via internet payment gateways 	<ul style="list-style-type: none"> Bank/NBFC mobile application based payment through IMPS/UPI Doorstep collection using the Government of India's Bharat Interface for Money (BHIM) mobile application

Innovations in the product lifecycle

Product design linked to consumer needs

- Adopt customer-centric approaches when designing products
- Design and formulate lending rates, repayment structures, tenure and loan value combinations specifically considering targeted customer segments and their needs.

Social media as a channel for customer acquisition

- Budget for targeted paid promotion on social media channels based on buyer personas, given that the number of social media users in India is predicted to be 283 million in 2018.
- Around 70 per cent of rural Internet users use social media
- Around 315 million rural Indians are predicted to use the Internet by 2020.¹

Change in target customer profile: upper middle class households

- In 2014, 12.4 per cent of upper middle class Indian families had some savings or investment in the form of gold compared to 4.4 per cent of middle class Indian families and 2.0 per cent of lower class families (From Middle India to the Middle Class of India: the Path to Success, Mastercard Centre for Inclusive Growth, August 2016)

Mobility and seamless customer connect

- Integrating the different customer touch points: physical branches, website, social media channels, mobile applications, mobile banking facilities, telephone communications, etc.
- Embracing omni channel retailing which leads to more streamlined operations
- Leveraging useful customer insight from multiple channel usage which allows for better customer analysis and product design.

Alliances and strategic partnerships

- Diversifying product portfolio in order to weather risk from contingencies and to provide higher investor value
- Teaming up with entities which provide more cost-effective and better quality non-core services.

Technology enabled lean branch operations

- Reduced cost per unit of key performance drivers (savings account, current account)
- Centralised processing (shifting multiple processes out of most branches to district level)
- District level branches can also specialize in certain functions
- Technology advancements in gold valuation (machines with minimal human intervention) and auctions (online auctions).

Possible doorstep banking models for gold loan services:

Lead generation to disbursal

- Field staff can value gold at the customer's residence using available tools
- Eligible customers are informed of the LTV amount based on valuation
- Field staff can be assigned an approval matrix to authorise spot disbursements
- Payment channels can be fully digitised

Emerging fintech landscape in India

Fintech, or financial technology, refers to the use of innovative technology in the design and delivery of financial services. These services include payments (e-wallets and peer-to-peer payments), investments (P2P lending) and financing (crowd-funding and micro-loans). One of the major factors that differentiates fintechs from traditional banking is data mining and analytics. Fintechs leverage alternative data points (social media footprints and analytics, call records, shopping history and preferences) and are thus able to extract greater customer insights. They also use machine learning algorithms and automation to increase efficiency and provide better targeted credit.

Fintechs bring a plethora of methodologies and benefits which are quite rare in the financial landscape. On a global level, they have made financial services more accessible to financially excluded groups, enhanced decision making speed and accuracy, reduced operating expenses and prices paid by customers and increased competition.

To enhance data security (at both the individual and corporate level), fintechs are steadily focusing on

1. statista.com

cloud technology and Aadhaar linked biometric technology. Around 1.133 billion Indians are enrolled in the Aadhaar system as of March 2017.²

India has a budding Fintech landscape: there were 400 registered companies and investments of around INR27 billion in 2015. The industry will be worth more than INR500 billion by 2020 (Fintech in India – A global growth story, KPMG in India and NASSCOM 10,000 Startups, June 2016). This is due to smartphones becoming more affordable, greater internet penetration, improved internet infrastructures, rise in e-commerce sites and the launch of Unified Payment Interface (UPI) by the National Payments Corporation of India (NCPI).

How to adapt to the fintech revolution:

- Create focused customer segments
- Increase digital offerings – online gold loan is the new norm
- Leverage social media presence to build brand awareness and enjoy higher customer mind share
- Disbursals through digital wallets
- Incentivise timely payments through innovative cashback models
- Invest in fintech for customer data mining and analytics for improved credit assessment.

Are digital-based data-driven credit products the future?

With strong backing from the government and the RBI, fintechs are expected to shift the dynamics of the lending landscape in India. With better systems to assess creditworthiness, fintechs will be able to accurately predict the chances of a borrower repaying his loan. This will most probably eliminate the need for collateral-based loans or secured loans since the risk of a borrower defaulting is already known. Due to advanced data extraction and mining technology, the concept of pledging collaterals in the absence of credit history will not exist. Data-driven unsecured loans seems to be the road ahead for the financial industry. Although the initial takers of these services will be the young, urban and tech- savvy Indian, adoption would ultimately trickle down to the under-banked Indian communities in the near future.



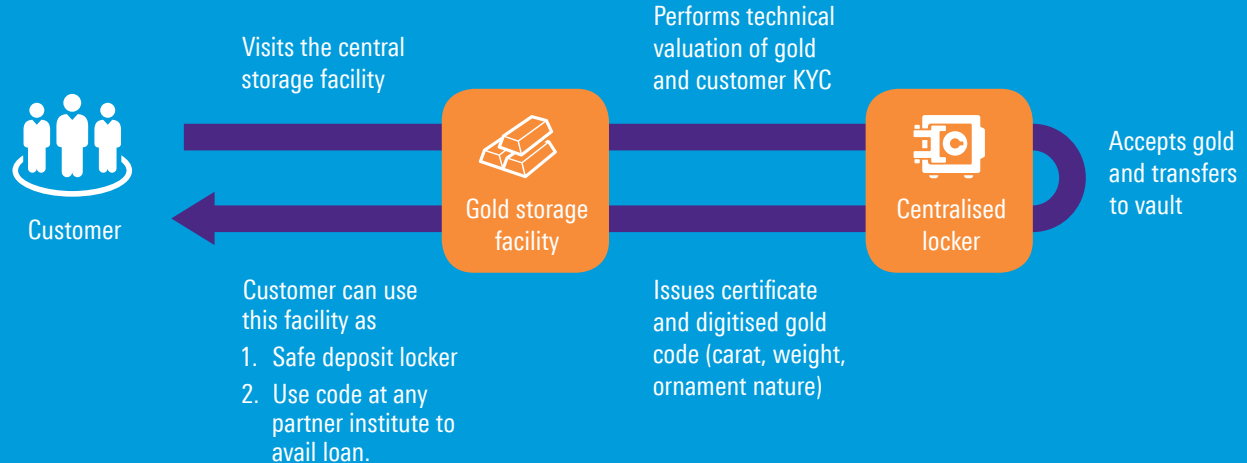
Centralised storage and digital gold: A unique proposition



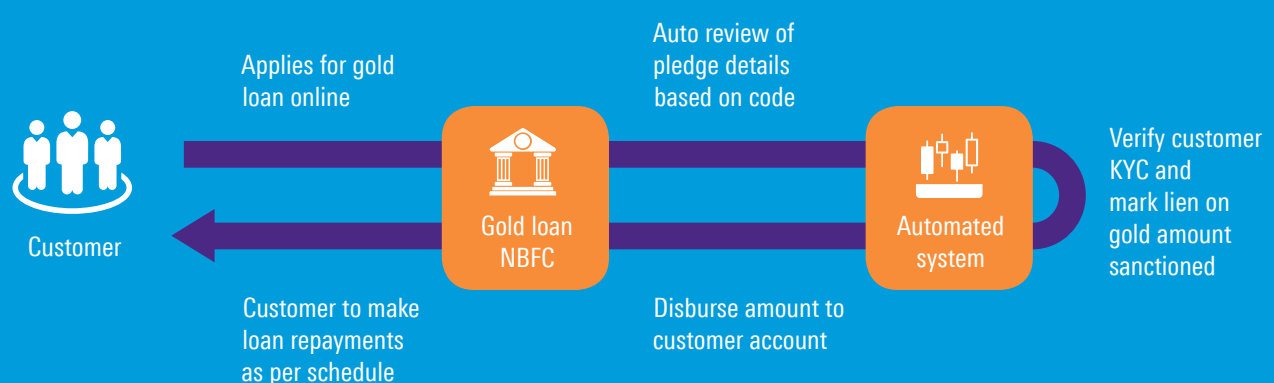
The model is a 'centralised gold locker unit' where one can securely park gold and obtain a secure digitised gold certificate post appraisal. This data will be hosted on blockchain to help ensure anonymity and security of personal information. The gold certificate can be presented at any partner gold loan company who will be able to access the collateral

data and sanction the loan amount by marking a lien on quantity of gold pledged. This marks transfer of ownership from the individual to the company. The model eliminates the need for each operating branch to have its own vault, conduct appraisal processes and store the gold while also doubling as a gold locker facility for the customer.

a) Depositing gold



b) Loan application



This model has several potential advantages including:

1. Reduced cost of storage: The initial set-up of storage facilities can be done at a district level through a public-private partnership program. This eliminates the need for each branch to have its own vault or locker.
2. Reduced cost of operations: Since the gold is digitised and already stored in the central locker facility, the need for customer to bring the gold to the branch is entirely eliminated. Operations can be moved online and only customer service centers can be retained.
3. Unified gold appraisal: Since all the gold is being verified at a centralised location, this helps ensure standardisation and eliminates collusion at a local level.
4. Lower locker facility charges: Since this model helps ensure scale of economy, the deposit locker charges will be much lower for the customer.

Future proposition

The true success for the gold loan industry lies in all stakeholders including regulators, financiers, gold loan companies and service providers to come together to create a unified platform driven by technology, digital operations and focused network strategy.



Glossary



Abbreviation	Full form
AUM	Assets Under Management
CAD	Current Account Deficit
CAGR	Compounded Annual Growth Rate
CAR	Credit Adequacy Ratio
CRM	Customer Relationship Management
EMI	Equated Monthly Instalments
FY	Financial Year
KYC	Know Your Customer
LTV	Loan-To-Value
MSME	Micro, Small And Medium Enterprise
NBFC	Non Banking Financial Company
NPA	Non Performing Asset
NPL	Non Performing Loans
PSL	Priority Sector Lending
PSU	Public Sector Undertaking
RRB	Regional Rural Bank
SFB	Small Finance Bank
TAT	Turn Around Time
WGC	World Gold Council
WPIC	World Platinum Investment Council



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