



APPLICABILITY OF FAIR PRACTICE CODE IN GOLD LOAN INSTITUTIONS

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ABSTRACT

One of the most discussed topics in the present competitive gold loan market is about the best gold loan institution. Many of Banks and NBFCs are providing gold loan. A list of financial institutions are stand out names in this context is Muthoot Fincorp Limited, Manappuram Finance Ltd, Axis bank, HDFC bank, Federal Bank, Union bank, South Indian bank etc...All of these Institutions are face a cut throat competition among each other to reach the top position of this market. In order to maintain and increase the market share institutions have to find out their weakness and turn it into their strengths. Satisfied borrowers are vital for the existence of the firms. But some borrowers are not satisfied with the safety system of gold loan institutions. Lots of complaints arise recently about Auction policy, grievance redressal mechanism; appraising procedures etc. This study aims to bring out to collect the opinion of borrowers towards applicability of fair practice code in Gold Institutions.

Key words: Financial Institutions, Gold loan, Fair Practice Code.

INTRODUCTION: GOLD FINANCE INDUSTRY IN INDIA

The recent economic boom and crash has sent shock waves throughout the economy, creating radical change in business paradigms, consumer demands, and even in economic cultures themselves. One of the greatest changes in the developing world has been a change in the people's relationship with gold. Since the days of the Roman Empire, gold has been seen as both a designer luxury and an immense store of value, and because of its portability and use as jewelry, gold has been a traditional fashion and savings account for people in Eastern Europe, India, and other foreign countries for a very long time. But lately, old habits seem to be dying fairly easily. The pawning of gold, which has for a long time been perceived as shameful, is rapidly becoming an acceptable practice. In India, for example, this long-held tradition is being replaced by gold loan businesses, which offer personal and business loans with gold as a Security for lower Interest rates than one would have access to with an unsecured loan. Many of the borrowers are women, who are now becoming more active members of society and are looking for ways to finance things such as holiday trips, children's educations, and down payments for homes.

Private lenders in India are making a killing off of this new trend. Once a very small industry, the gold loan business has taken off and is now a booming trend in India. The business is an easy way for people in impoverished areas to gain access to quick credit. This is not to say that credit comes cheap; many of these gold loan businesses charge Interest at rates as high as 18%; higher than many of the credit cards we are familiar with. While this may seem a bit harsh, this is still a great leap forward both culturally and economically for people in the third world. Historically, informal lending practices such as these are the beginnings of developed credit markets in later stages of development. This helps people like those in rural India gain access to the credit that they need to begin building futures for themselves and their children.

FAIR PRACTICE CODE OF GOLD LOAN INSTITUTIONS

The practices that is fair and transparent to the borrowers, unambiguous and non-detrimental to the Interests of the borrowers.

SAFEGUARDS AND SECURITY ARRANGEMENTS

All the branches are fitted with automatic burglary alarm and CCTV, structured with strong rooms and for the Security of the branch, it has appointed unarmed safeguards.

AUCTION POLICY FOR GOLD LOANS

The Company resorts to realization of the Security only through 'Public Auction'. As a general rule Auction process shall be initiated for all accounts wherein the principal and interest have not been paid by the end of 12

months from disbursement. Accounts that have not completed 12 months from disbursement date may also be taken up for Auction in exceptional circumstances when the interests of the Company are adversely affected such as depletion of Security value and all other recovery initiatives have not succeeded. Auction shall be conducted in Auction Centres / Offices approved internally by the Company through public Auction. Auction of the gold ornaments shall be taken up ones-is-where-is basis as far as possible. In exceptional cases the Company constrained to melt and assay the gold ornaments before Auction. A notice in the local language shall be sent to all unsettled pledges beyond 12 months after disbursement by registered post AD, at the address provided by the borrower in the loan application form / KYC document, at the end of 12 months after disbursement, requesting the borrower to immediately pay the full dues failing which the Security would-be liable to be put on Auction, without further notice, for recovery of the dues. Reasonable opportunity is given to all borrowers to redeem the gold ornaments to avoid Auction of the gold.

ASSAYING AND VALUATION PROCEDURES

Assaying is the act or process of testing, esp. of analyzing or examining metals and ores, to determine the proportion of pure metal. In other words a formal assessment of the worth of property, jewelers, etc. valuation: The procedure involved in evaluating and determining the market value or current worth of an asset or company is known as valuation. A professional appraiser is involved in determining the value of the asset.

- ☉ The act of appraisal.
- ☉ An estimated value.
- ☉ The estimation or acknowledgment of the worth of something

REVIEW OF LITERATURE

Aparna Ramalingam (2014) has shown analyzed that the prices of the yellow metal remaining almost stable during the last three months (between Rs 30,270 per 10 gram as on March 7 as against Rs 30,400 on December 11 2013), gold loan rates per gram have remained consistent at Rs 2,000 per gram in the period. These rates have pretty much remained stable since the beginning of the fourth quarter. Moreover, with the loan to value ratio pegged at 75% for Banks as well as NBFCs (non banking finance companies) for gold loans, many Banks are also giving loans at Rs 2,000 per gram to grab the attention of the borrowers. The stability in prices for gold loan companies could not have come at a better time as during the last eighteen months the industry had come under the regulatory scanner with the Reserve Bank of India bringing out guidelines on fair practices code for NBFCs which included NBFCs lending money against gold jewellery.

Vishwanathan (2013) :The Reserve Bank vides its circular dated September 28, 2006, issued guidelines on Fair Practices Code (FPC) for all NBFCs to be adopted by them while doing lending business. The guidelines inter alia, covered general principles on adequate disclosures on the terms and conditions of a loan and also adopting a non-coercive recovery method. The same was revised in view of the recent developments with sector including creation of New Category of NBFCs viz; NBFC-MFI and also the rapid growth in NBFCs lending against gold jewellery. Revised circular was issued on March 26, 2012.

METHODOLOGY

OBJECTIVES OF THE STUDY

1. To examine the applicability of Fair Practice Code for the gold loan institutions.
2. To assess the Auction policy, Safeguard arrangements and assaying and valuation procedures are related with the protection practices.
3. To make suggestions for protection of gold loan borrowers.

SAMPLING DESIGN

This study has been conducted among gold loan providing Banks and NBFCs .A sample size of 205 respondents is taken for detailed study. Among these 205 respondents 43 respondents were selected from the HDFC Bank, 52 from South Indian Bank and another 57 from Manappuram Finance Ltd and 53 respondents from Muthoot Fin

corp Ltd in the area of Chavakkad taluk, situated in Thrissur district (kerala). Convenient sampling method was adopted in this study.

METHODS OF DATA COLLECTION

The study is based on primary and secondary data. Primary data has been collected through a structured questionnaire which was specially prepared for this study. Secondary data have been collected from various published books, journals, magazines, newspapers, websites and past records from various governments, Private organizations involved in gold loan operations as well as regulations.

PERIOD OF STUDY

The questionnaires were collected during the period of April 2014 to May 2014.

STATISTICAL TOOLS USED

Correlation analysis and one way ANOVA.

DATA ANALYSIS

Correlation Analysis

		SAFEGUARD	ASSVP	AUCTION
SAFEGUARD	Pearson Correlation	1	.317(**)	-.201(**)
	Significant. (2-tailed)	.	.000	.004
ASSVP	Pearson Correlation		1	-.650(**)
	Significant. (2-tailed)		.	.000
AUCTION	Pearson Correlation			1
	Significant. (2-tailed)			.

Source: Primary data

One way ANOVA

Anova for Different Age of Respondents on Gold Loan Protection Practices.

SCALE VARIABLE	DEMOGRAPHIC VARIABLE	N	MEAN	SD	DF	F VALUE	P VALUE
AUCTION	AGE						
	less than 25	28	3.7041	.52009	3	.596	.618
	26-35	113	3.7927	.57270			
	36-45	51	3.6975	.51321			
	more than 46	13	3.6484	.53010			
Total	205	3.7477	.54735				
SAFEGUARD	less than 25	28	3.4286	.60804	3	1.226	.301
	26-35	113	3.4934	.62630			
	36-45	51	3.3284	.69909			
	more than 46	13	3.2308	.52502			
	Total	205	3.4268	.63844			
ASSAYING AND VALUATION PROCEDURES	less than 25	28	3.6667	.53863	3	.605	.612
	26-35	113	3.6357	.56850			
	36-45	51	3.6111	.58087			
	more than 46	13	3.8462	.72156			
	Total	205	3.6472	.57631			

Source: Primary data

Anova for different occupation of respondents on gold loan protection practices

SCALE VARIABLE	DEMOGRAPHIC VARIABLE	N	MEAN	SD	DF	F VALUE	P VALUE
	OCCUPATION						
SAFEGUARD	Business	70	3.4607	.61183	3	.671	.571
	Professional	43	3.5116	.65682			
	House Wife	5	3.4500	.75829			
	Service	87	3.3563	.64771			
	Total	205	3.4268	.63844			
ASSAYING AND VALUATION PROCEDURES	Business	70	3.6810	.63686	3	1.300	.276
	Professional	43	3.7519	.58686			
	House Wife	5	3.3667	.39791			
	Service	87	3.5843	.52142			
	Total	205	3.6472	.57631			
AUCTION	Business	70	3.7490	.56226	3	.174	.914
	Professional	43	3.6977	.60465			
	House Wife	5	3.7429	.39641			
	Service	87	3.7718	.51896			
	Total	205	3.7477	.54735			

Source: Primary data

FINDINGS

1. The result of Karl Pearson coefficient of correlation clearly indicated about the relationship of one variable with another. The first variable “SAFEGUARD ARRANGEMENTS” significantly related to Auction but it was not significantly related to Assaying & Valuation procedures.
2. The second variable “ASSAYING & VALUATION PROCEDURES” significantly related to Auction procedures.
3. The third variable “AUCTION PROCEDURES” significantly related to Assaying and Valuation procedures and Safeguard arrangements.
4. One way ANOVA table shows the variance/difference between demographic variables and study variables. The first demographic variables “AGE” indicate that there is no significant difference between Auction procedures, Assaying and valuation procedures and safeguard arrangements.
5. The second demographic variable “OCCUPATION” shows that there is no significant difference with Auction procedures, Assaying and valuation procedures and safeguard arrangements.

SUGGESTIONS

1. Gold Loan Institutions need to adopt specific guidelines on Auctioning of jewellery based on broad regulatory prescriptions and a revised Fair Practices Code. It may be stipulated that the pledged gold ornaments should be auctioned off at a price closure to the prevailing rate in the market on the day of Auction, so that the borrowers’ Interests are protected.
2. The Safeguard arrangements followed by different institutions are not same. So the institutions should appoint armed and unarmed securities and other technical Security systems for the proper protection.
3. Majority of the gold loan borrowers belong to the middle class and medium educated sections of society and the gold loan companies need to instruct their sales staff to properly explain the various terms and penalties to be levied.

CONCLUSION

A Fair Practices Code is generally designed to foster just and equitable principles of conducting business; to maintain high standards of commercial practices and integrity among the relevant players; to prevent fraud and



manipulative practices; to build Safeguards against unreasonable profits, commissions and other charges; and to maintain collaboration with various agencies to protect borrowers .

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