

ROLE OF NBFC GOLD LOAN ON THE SOCIO- ECONOMIC POSITION OF ITS CUSTOMERS IN KOOHATTUKULAM MUNICIPALITY

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Abstract

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged mainly in the business of loans and advances. India is home to over 200 small and large NBFC (Non-banking Financial Companies). The gold loan NBFCs offering loans against gold collaterals in India is on the rise. These NBFCs will keep customers' jewelry or gold chips as collateral and lend them money at interest rates that are slightly below those of conventional banks. The present study tries to assess the role of NBFC gold loan on the socio-economic position of its customers in Koothattukulam Municipality. The study observes that the non-banking finance companies play a good role in the study area by increasing the access of the customers, serves the rural customers and creates employment opportunity.

Key words: NBFC gold loan, sources of debt, socio-economic position, preferences, repayment pattern

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Introduction

A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged mainly in the business of loans and advances. India is home to over 200 small and large NBFC (Non-banking Financial Companies). It is the only country in the world that licenses financial institutions in nine different categories as NBFCs. These NBFCs are licensed and regulated by reserve Bank of India (Das, 2016). In recent years, RBI has witnessed a minor growth in the number of financial institutions seeking NBFC licenses under various categories. The gold loan NBFCs offering loans against gold collaterals in India is on the rise. These NBFCs will keep customers' jewelry or gold chips as collateral and led them money at interest rates that are slightly below those of conventional banks (Acharya, Khandwala&Oncu, 2013). Gold loan means the sum of money that is expected to be paid back with interest against gold as security. Gold loan or loan against gold is secured loan in which a customer pledges his or her gold ornaments as collateral with a gold loan company. The loan amount sanctioned is a certain percentage of the value of the gold that has been pledged. It is short term loan ranging from 1 month to few years. The payment had to be done in that period.Over the years, gold loan NBFCs witnessed an upsurge in Indian financial market, owing mainly to the recent period of appreciation in gold price and consequent increase in the demand for gold loan by all sections of society, especially the poor and middle class to make both ends meet (Agarwal, 2014). Though there are many NBFCs offering gold loans in India about 95 percent of the gold loan business is handled by three Kerala based companies, Viz., Muthoot Finance, Manappuram Finance and MuthootFincorp (Cherian, 2015). There are various reasons for the increase of gold loan viz. Increase of NBFC's in India, Agricultural labourers and farmers have been increasingly availing gold loans for their seasonal credit requirements (Gandhi, 2015). The increase in policy rate hikes, the gloom in the micro-finance sector, constricted availability of retail personal loans from banks also could have contributed to the rapid increase in the demand for gold loans in recent years. The increase in policy rate hikes, the gloom in the micro-finance sector, constricted availability of retail personal loans from banks also could have contributed to the rapid increase in the demand for gold loans in recent years (Kantwala, 1997 &Muthoot Fin Corp, 2015). The present study is an attempt to analyse the role of NBFC gold loan on the socio-economic position of customers in Koothattukulam Municipality.

Review of literature

With increasing media campaigns, social awareness programmes, and financial literacy programmes, people are gradually realizing the potential of NBFCs gold loan and now have a better understanding of the terms and conditions (Cherian, 2015).

Over time NBFCs engaged in lending against gold have come to play a crucial role in financial inclusion through wide spread geographic distribution of branch network and structuring of need based lending schemes for farmers, traders and entrepreneurs in small and medium scale industries (Ernst, 2014).

With the current interest rate fluctuations, opting for a gold loan as against a personal loan is more lucrative. This will reduce time as well as cost (FICCI, 2013).

The country's organized gold loan market has witnessed a significant expansion in the last one decade. The large domestic household gold holding of the country enabled the creation of this market. Most of the gold is held by people in rural areas and in many cases this is the only asset they have in their possession though in small quantity (Muthoot Fin Corp, 2014-15). From the above review of literature it is clear that the studies concerning the role of NBFC gold loan on the socio-economic position of the customers in the study area is not done previously. Hence, the present study tries to fill such research gap.

Significance of the study

Over time, NBFCs engaged in lending against gold have come to play a crucial role in the financial inclusion through wide spread geographic distribution of branch network and structuring of need based lending schemes for farmers, traders and entrepreneurs in small and medium scale industries. Gold loan NBFCs have taken up pioneering efforts in marketing loans against gold as convenient, hassle free way to unlock the value of investments in gold even in geographies where the product in a structured form was unknown. In such context, It is very important to identify the need of the every customer and provide efficient and best gold loan services they want. Hence it is found relevant to make a study on the role of NBFC gold loan on the socio-economic status of customers in Koothattukulam Municipality.

Scope of the study

The present study is intended to analyse the sources of debt/borrowings of the customers, their spending pattern, repayment pattern of debt, preference towards NBFC gold loan and the role of NBFC gold loan on the socio-economic position of its customers in Koothattukulam Municipality.

Objectives of the study

1. To examine the socio-economic position of NBFC gold loan customers in Koothattukulam Municipality.
2. To identify the sources of debt, spending pattern of debt and repayment pattern of debt of the NBFC gold loan customers in Koothattukulam Municipality.
3. To analyse the preferences towards NBFC gold loan by its customers.
4. To assess the role of NBFC gold loan on the socio-economic position of its customers in Koothattukulam Municipality.

Hypotheses of the study

1. There is no significant difference between the mean rank towards the sources of debt, spending pattern of debt and repayment pattern of debt of the gold loan customers.
2. There is no significant difference between the mean rank towards the preferences of NBFC gold loan by its customers
3. There is no significant difference between mean rank towards the role of NBFC gold loan on the socio-economic position of its customers.

Methodology

The study is empirical in nature and uses both secondary as well as primary data. The secondary data have been collected from journals and officials website. The primary data have been collected through the administration of structured questionnaire among 30 conveniently selected gold loan customers from the non-banking finance companies in Koothattukulam Municipality. The data collected were analysed by using simple percentage and Friedman's test.

Results and discussions

Social profile

The social profile of the respondents is shown in table 1 below shows that most of the respondents are females and a majority fall under the age group of up to 25 years. The educational qualification of the majority is post-graduation and many are engaged in salaried job. The family size of the majority is two to four members and majority's family consists of up to two earning members and up to two dependents.

Table 1: Social profile of the respondents

Categories		Frequency	Percent
Gender	Male	14	46.7
	Female	16	53.3
Age	Up to 25 years	16	53.3
	25-50 years	11	36.7
	Above 50 years	3	10.0
Education	Primary	1	3.3
	Secondary	3	10.0
	Higher secondary	6	20.0
	Post –graduation	16	53.3
	Technical education	4	13.3
Occupation	Agriculture	5	16.7
	Business	3	10.0
	Salary	12	40.0
	Others	10	33.3
Family size	Up to 2	1	3.3
	2 to 4	18	60.0
	4 to 6	11	36.7
Number of earning members	Up to 2	22	73.3
	2 to 4	7	23.3
	4 to 6	1	3.3
Number of	Up to 2	21	70

dependents	2 to 4	9	30
Availability of land / house property	Yes	27	90
	No	3	10

Source: field survey

Economic profile

The economic profile of the respondents is presented in the table 2 below shows that the monthly income of the majority is up to Rs.10000 a month and most of them save up to Rs.1000 a month. The financial investment of the majority is in the form of life insurance and gold or gold ornaments. All the respondents have the tele communication devices at their home and more than half of the respondents have computer or its varied form of devices at their home. Majority of the respondents have white goods at their home and a considerable number of the respondents have either two wheeler or three wheeler or four wheeler at their home.

Table 2: Economic profile of the respondents

Categories		Frequency	Percent
Monthly income	Up to Rs.10000	16	53.3
	10000 to 20000	7	23.3
	20000 to 30000	3	10.0
	Above Rs.30000	4	13.3
Monthly savings	Up to Rs.1000	14	46.7
	1000 to 5000	7	23.3
	5000 to 10000	8	26.7
	Above Rs.10000	1	3.3
Financial investments	Life insurance	12	40
	Gold / gold ornaments	6	20
	Provident funds	1	3.3
	Pensions schemes	5	16.7
	Fixed deposit schemes	2	6.7
	Curies / chitties	4	13.3
	Television/phone/mobile phone	30	100

Equipment at home	Computer/laptop/tablet etc	16	53.3
	Mixer grinder/refrigerator/washing machine	25	83.3
	Two/three/four wheeler	22	73.3

Source: field survey

Sources of borrowings

As all the respondents have certain value of debt, an attempt has been made to know about the sources of debt of the respondents. Accordingly, various common sources of borrowings of the respondents have been identified through the review of literature and they were asked to express their opinion towards it on a five point scale. Thereafter Friedman's test was administered. The test result is shown in table 3 below:

Ho: There is no significant difference between the mean rank towards the sources of debt of the gold loan customers.

Ha: There is significant difference between the mean rank towards the sources of debt of the gold loan customers.

Table 3: Sources of borrowings of the respondents

Sources of debt/borrowings	Mean rank	Chi-square value	p-value
Friends/relatives	2.71	17.569	0.001**
Private money lenders	2.47		
Non-banking financial institutions	3.16		
Banking financial institutions	3.88		
others	2.79		

Source: Field survey

Note: ** denotes significant at one percent level

From the above table it is seen that the most important sources of borrowings of the respondents is banking financial institutions (mean rank = 3.88) followed by non-banking financial institutions (mean rank= 3.16) and other sources (mean rank = 2.79). Hence the null hypothesis is rejected.

Spending pattern of the respondents

An attempt has been made to know about the spending pattern of the respondents. For such purpose, some seven variables were identified and included in the questionnaire and the respondents were asked to express their opinion towards it. Thereafter Friedman's test has been administered and the test result is given in table 4 below:

Ho: There is no significant difference between the mean rank towards the spending pattern of debt of the gold loan customers.

Ha: There is significant difference between the mean rank towards the spending pattern of debt of the gold loan customers.

Table 4: Pattern of spending of the respondents

Spending pattern of the respondents	Mean rank	Chi-square value	p-value
Medical emergencies	4.93	22.961	<0.001**
Educational needs	4.53		
Agricultural expenditure	3.23		
Unexpected fund requirements	4.55		
Some productive purposes	3.67		
To give financial assistance to somebody	3.95		
others	3.13		

Source: Field survey

Note: ** denotes significant at one percent level

From the above table it is clear that the most important purpose for which they take loan is to meet medical emergencies (mean rank = 4.93), unexpected fund requirements (mean rank = 4.55) and to meet the educational needs (mean rank = 4.53). Hence the null hypothesis is rejected.

Repayment pattern of the respondents

In order to know about the repayment pattern of debt of the respondents, some seven variables were identified and then the opinion of the respondents towards those variables were gathered in

a five point scale. The collected data were analyzed by means of Friedman's test. The test result is shown below:

Ho: There is no significant difference between the mean rank towards the repayment pattern of debt of the gold loan customers.

Ha: There is significant difference between the mean rank towards the repayment pattern of debt of the gold loan customers.

Table 5: Pattern of repayment of the respondents

Repayment pattern	Mean rank	Chi-square value	p-value
Using family income to repay	5.63	45.715	<0.001**
Temporary borrowings	3.92		
From the revenue of productive purpose for which the loan was taken	3.80		
By using the money form curies/chitties	4.87		
Depending upon the intermediary to recover the gold on commission basis	3.45		
Many of the time not repaying the loan so that losing the gold	3.85		
others	2.48		

Source: Field survey

Note: ** denotes significant at one percent level

From the above table it is seen that the most dominant ways of repaying the debt by the respondents are i) using family income to repay (mean rank =5.63), ii) using the money from chitties /curies (mean rank = 4.87) and iii) temporary borrowings (mean rank =3.92). Hence the null hypothesis is rejected.

Preference towards NBFC gold loan

In order to examine the reasons for preferring gold loan from non-banking finance companies, five possible reasons were identified and the responses towards these variables have been sought in a five point scale. These responses were tested by using Friedman's test and the test result is shown below:

Table 6: Preference towards NBFC gold loan of the respondents

Preference towards NBFC gold loan	Mean rank	Chi-square value	p-value
Immediate sanction and disbursal	2.88	1.547	0.818
No much procedural formalities	3.18		
Nice and caring behaviour of the staff over there	2.85		
Higher value of loan will be offered	2.95		
Getting loan from other financial institutions is very difficult	3.13		

Source: Field survey

From the above table it is clear that the reasons for preferring gold loan from the non-banking finance companies by the customers are no much procedural formalities (mean rank =3.18), difficulty in getting loan from other financial institutions (mean rank = 3.13) and the availability of high amount as loan (mean rank = 2.95). It is to be noted that all the variables have almost the same mean value and the p-value is more than 0.05. Hence it is failed to reject the null hypothesis.

Role of NBFC gold loan on the socio-economic uplift of the poor

In order to examine the role of NBFC gold loan on the socio-economic uplift of the poor, six major aspects are considered and the opinion of the customers on these variables were sought on a five point scale. These responses were analyzed by means of Friedman's test. The test result is shown below:

Ho: There is no significant difference between the mean rank towards the role of NBFC gold loan on the socio-economic position (or uplift) of the gold loan customers.

Ha: There is significant difference between the mean rank towards the role of NBFC gold loan on the socio-economic position (or uplift) of the gold loan customers.

Table 7: Role of NBFC gold loan on the socio economic uplift of the poor

Role of NBFC gold loan	Mean rank	Chi-square value	p-value
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Employment opportunity	3.68	7.543	0.183
Income generation	3.20		
Increase in access	3.85		
Financial assistance	3.40		
Capacity building	3.03		
Serving rural customers	3.83		

Source: Field survey

The above table exhibits that the most dominant role playing by the non-banking finance companies are i) it offers increased access (mean rank =3.85), ii) serving rural customers (mean rank =3.83) and iii) creating employment opportunity (mean rank =3.68). But it is to be noted that all the variables have almost the same mean rank. It means that the non-banking finance companies play good role (all mean rank is more than 3) in offering employment opportunity, income generation, increase in access, financial assistance, capacity building and serving rural customers. Hence it is failed to reject the null hypothesis.

Conclusion

The non-banking finance companies play a good role in the study area by increasing the access of the customers, serves the rural customers and creates employment opportunity. Majority of the customers have only up to Rs.1000 as monthly savings, some concrete measures like joining recurring deposit schemes of post office/banks, opening savings bank account etc are to be adopted from the part of the customers to increase the monthly savings. A deliberate measure is to be adopted from the part of the customers to avoid the gold loan as far as possible. For such purpose at least one rupee increase in savings is to be effected every month which will help to reduce the necessity of taking gold loan. As far as possible some medi-claim policies are to be opened to reduce the medical expenditure as it is one of the reasons for which they go for gold loan. The youngsters are to be made aware of the evils associated with the gold loan from non-banking finance companies and the usage of the gold loan amount for the un-productive purposes.

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