

Business Standard

Lack of incentives led to poor response for GMS: IIM-A's IGPC

IGPC interviewed top bank officials, refineries to grasp challenges of the policy and implications

Vimukt Dave | Ahmedabad January 30, 2017 Last Updated at 19:20 IST



Lack of incentives for key players like banks and refiners, among others coupled with lack of awareness on the Gold

Gold bracelets are on display as a woman (L) makes choices at a jewellery showroom on the occasion of Akshaya Tritiya, a major gold buying festival, in Kolkata

Monetisation Scheme (GMS) led to poor response, found a study conducted by the Indian Gold Policy Centre (IGPC) at the Indian Institute of Management, Ahmedabad (IIM-A).

"It can be said that GMS has not been a successful policy. Our research has identified the areas of policy, which can be tweaked to make it more attractive for the key players of the scheme i.e. consumers, and bankers and refiners," said Arvind Sahay, head of IGPC.

The study 'Gold Monetisation in India as a Transformative Policy' by IGPC is an in-depth analysis of the buying pattern of gold in India. With an aim to suggest improvisations for a better implementation of GMS that was introduced in 2015, a nationwide survey was carried across 1,171 households, from 10 states that constitute approximately three-quarters of annual national gold consumption.

IIM-A's IGPC interviewed top officials of six banks, five refineries and one industry consultant to understand the challenges and implications of the policy for the gold industry.

The study thereby found that lack of incentivisation led to banks losing interest in the scheme since deposit of gold or selling coins did not comprise as banks' key operations. Banks are also struggling to promote products based on gold monetization policy and seek more control on the process to have a clear separation of risks or effective mitigation of risks relating to the operationalization of the policy.

"The scheme is not part of their core business and hence, the government should incentivise banks for GMS. Inadequate experience in quality management of gold and lack of sufficient incentive alignment have been pointed out as the main reasons why banks are not yet fully on board. Process issues such as turnaround time and logistics requirements also deter banks and refiners from taking up the policy," said Sahay.

According to the study, the households revealed a tendency to accumulate gold for purposes ranging from marriage to child's education; about 50 per cent of respondents who accumulate gold in small quantities do so for marriage of child or self.

Rural consumers were found to be more unwilling to part with gold as compared to urban consumers. However, rural consumers were also ready to pledge gold as collateral, with 74 per cent of rural consumers being open to pledging their gold, suggesting 'liquidity use' of gold on the basis of requirement, the study found.

"Moreover, high income urban consumers hold a high proportion of their assets in the form of gold, indicating the use of gold for investment purposes, and implying its scope for monetization," said Sahay.