Striking gold: The rise of India’s gold loan market

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pwc

Contents

Introduction

Gold maintains a distinct and revered status as a symbol of financial prosperity within a majority of Indian households since it is considered to be a tangible marker of social prestige for many. Gold assets are not merely considered to be a financial asset but are also symbol of cultural heritage often passed down from one generation to the next. This inter generational transfer establishes a profound emotional connection and a sentimental inclination towards gold. Despite gold's liquidity as an asset, the ingrained affinity of the Indian populace toward this precious metal manifests into a unique financial behaviour. During times of economic adversity, individuals are hesitant to part with their gold assets by selling them. Instead, they turn to the practice of leveraging their gold jewellery as collateral in exchange for short term credit through gold loans.

Gold loans, are a secured financial product, offered by banks and nonbanking financial companies (NBFCs) in the regulated environment and local money lenders in the unregulated space. In this arrangement, customers provide their gold jewellery as collateral and, in return, the lending institution disburses the loan based on the prevailing market value of the pledged gold. While there has been a trend towards the formalisation of gold loans in recent years, a considerable portion of the market remains unorganised.

The process of formalisation of gold loans has been significantly influenced by increasing levels of urbanisation. This expansion is facilitated by the establishment of new branches, the introduction of digital products, and, notably, the provision of more attractive interest rates and customer service tailored to the needs of urban and rural customers. The evolving landscape reflects the collaborative efforts of organised entities to bring structure and reliability to gold lending practices, thereby offering a more secure and beneficial financial alternative for individuals in both urban and rural settings.

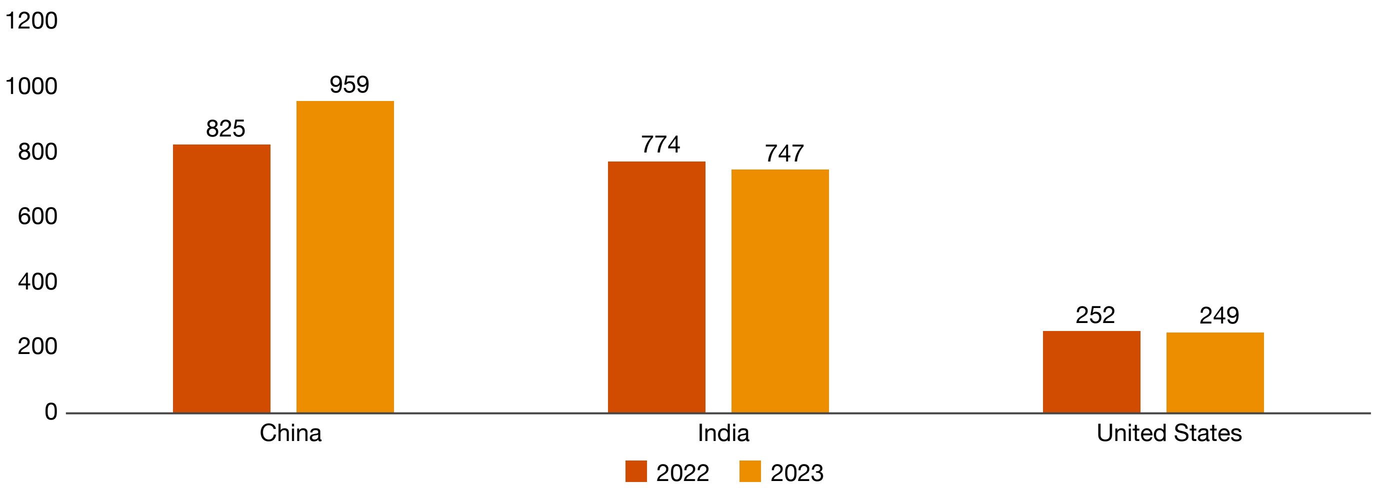
India's gold consumption

Demand for gold in domestic and global markets

India was world's second-largest consumer of gold in 2023.[1] The primary driver for this demand in India comes from the sale of gold as jewellery. The overall demand for gold in India amounted to 747 tonnes in 2023, reflecting a 3% decrease compared to the previous year. The demand for gold jewellery specifically experienced a year-on-year decline of 6%, totaling 562.3 tonnes in 2023 as gold prices surged during the year.[2]

A major factor which impacts the decrease in the demand of gold jewellery is the price which results in a notable tonnage decline and increase in investment demand which ultimately pushes the gold prices higher. The prices of gold in India surged from INR 55,375 to 66,532 per 10 grams (22 carat) between November 2023 to May 2024[3] which resulted in a decrease in the customer demand. Higher prices pushed customers towards lightweight or lower carat items. The surging prices for the yellow metal may decrease the demand among buyers leading to a cut in the jeweller's stocks. However, according to recent reports, the demand for gold in India has seen a rise during the first quarter (January to March) of 2024, despite rising gold prices.

Figure 1: Gold demand trends of China, India and the US (In tonnes)



Source: Gold Demand Trends, World Gold Council

1 Gold Demand Trends, World Gold Council
2 Ibid.
3 RBI, Gold prices

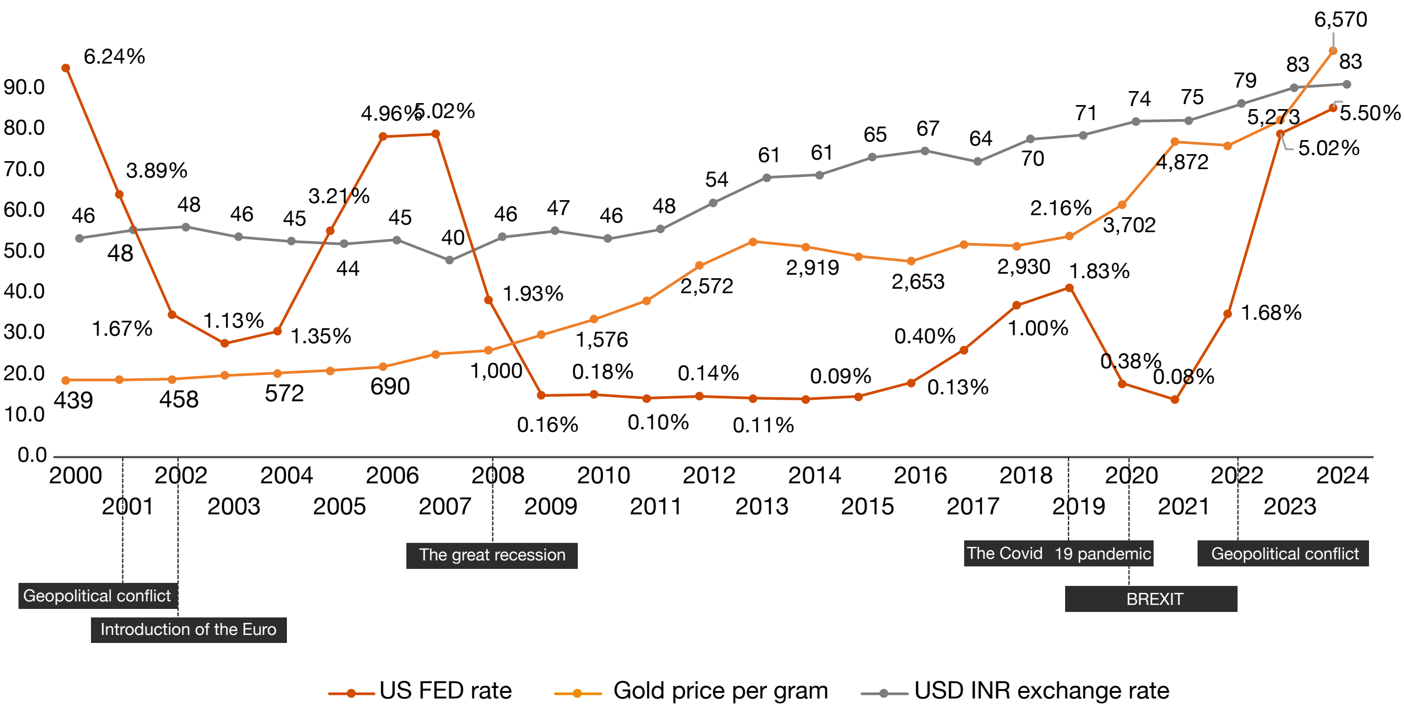
Globally, there was a 3% growth in the total demand for gold in 2023[4] with China being the largest single market for gold globally. In China, the consumer demand for gold grew by 16% to reach 959 tonnes in 2023.p The growing international market for gold presents opportunities for Indian gold loan financiers to explore market entry opportunities in other global markets.

Gold's relationship with the US dollar

The intricate relationship between gold and the US dollar unveils a captivating illustration of economic interconnectedness. An interesting trend can be identified by comparing the gold prices in India and the exchange rate of USD with the Indian rupee. A weakening rupee leads to an increase in gold prices. This correlation between weakening rupee and increasing gold prices can also be attributed to the fact that gold is priced in USD internationally, and a weakening rupee means more money is required in INR to import gold. As INR weakens, as a hedge, there is a tendency to move to gold as an investment, gold's value being rooted in its intrinsic worth and limited supply, making it a reliable safe haven against fluctuations in fiat currency. This rise in demand further leads to higher imports, thereby weakening the value of the Indian rupee.

A similar pattern can be observed in the aftermath of other global events, where gold is considered to be a safe investment. For example, the economic changes in 2008 led to volatile changes in the global market causing widespread losses. However, gold prices have surged from INR 999.56 per gram in 2008 to INR 1992.7 per gram in 2011 safeguarding the investors. The rise in the gold prices during these events is given in the graph below.[5]

Figure 2: Movement of gold prices against US fed interest rates and USD-INR exchange rates



Source: RBI Gold prices

4 Gold Demand Trends, World Gold Council

5 RBI, Gold prices

"Of late, the sharp increase in gold prices has imparted some stability to the gold loan book of most players and we do not expect gold prices to come down due to geo-political factors, the accumulation of gold by central banks as well as the lasting allure of the yellow metal."

- V.P. Nandakumar, Managing Director and Chief Executive Officer, Manappuram Finance Ltd

Historically, gold has been an investment product which has provided steady returns to the investors This instills a sense of security amongst investors who look at gold as a safe investment asset. Given below is a representation of the returns provided by Gold for INR 1,00,000 invested across various tenures.

Table 1: Return on investments made in gold[6]

Year of investment	Years	Gold rate per gram during investment	Current gold rate per gram	Investment value	Holding value (in g)	Current value	Returns	Compund annual growth rate (CAGR)
2021	3	4,872.32	6,800.00	100,000	20.52	1,39,563.85	39,563.85	12%
2019	5	3,119.34	6,800.00	100,000	32.06	2,17,994.76	1,17,994.76	17%
2014	10	2,919.04	6,800.00	100,000	34.26	2,32,953.38	1,32,953.38	9%
2009	15	1,288.97	6,800.00	100,000	77.58	5,27,551.37	4,27,551.37	12%
2004	20	571.90	6,800.00	100,000	174.86	11,89,029.45	10,89,029.45	13%

Source: PwC analysis

6 PwC analysis

Indian jewellery market is dominated by gold jewellery which accounts to 85% of the total consumption. This preference underscores gold's enduring significance in the Indian household as a symbol of wealth, status and cultural heritage. However, with the advent of multiple financial instruments, Indian families have started moving towards securing gold holdings through various channels other than jewellery and gold bar. There has been a significant increase in investment into products like sovereign gold bonds, digital gold, gold exchange traded funds (ETFs) and gold savings schemes. This presents a lucrative market opportunity for businesses which are trying to build products around gold investments and collateralisation.

Some of the ways in which Indians have been investing and trading in gold other than the traditional form of physical gold are noted below.

Gold futures: Gold futures contracts are agreements to buy or sell a specified amount of gold at a predetermined price on a future date. These contracts are often used by traders and investors to hedge themselves against price fluctuations in the gold market or to speculate on future price movements.

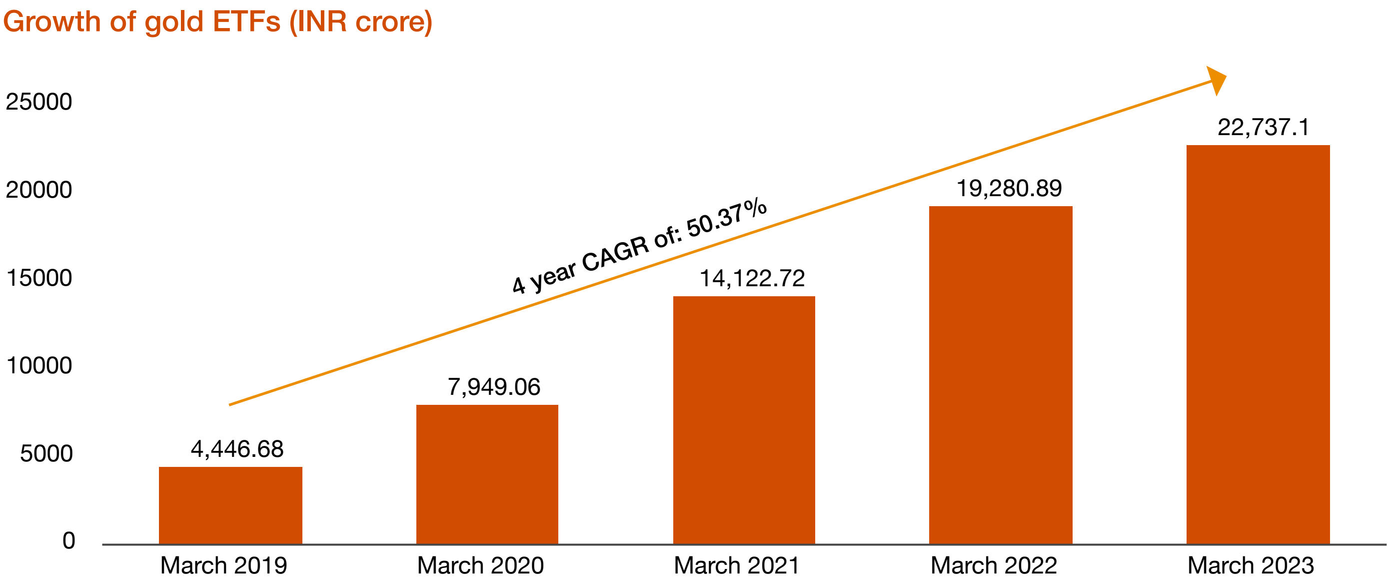
Sovereign gold bonds (SGBs): SGBs are government-backed securities issued by the Reserve Bank of India. These bonds allow investors to invest in gold in a digital form without owning physical gold. Investors purchase these bonds at the prevailing market price of gold and receive interest on their investment. This provides a secure way of holding gold investments without the hassle of storing physical gold as the bonds are secured by the government and also accrue interest on the investment.

Digital gold: Many FinTechs have been offering digital investment platforms which allows individuals to buy, sell and hold gold electronically. This enables investors to invest and hold gold in fractions without needing to store or manage physical gold. Digital gold is backed by physical gold and provides an option for investors who want to invest smaller denomination into the gold asset to build a gold portfolio.

Gold ETFs: A relatively newer product in the market, gold ETFs provide a new way for investors to participate in the gold market. Gold ETF units are backed by physical gold, these ETFs combine the ease of gold investing with the flexibility of stock investing. This product is gaining popularity as retail accounts in gold ETFs have increased by more than five times over the last four years.[7]

7 AMFI-Association of Mutual Funds In India

Figure 3: Growth of gold ETFs



Source: AMFI-Association of Mutual Funds In India

The securitisation of gold through multiple financial instruments presents an opportunity for players to offer loan against security products, leveraging the value of gold-based security as collateral. Established players in the gold loan ecosystem can also look at gold security collateralisation as an opportunity to diversify their gold loan book considering the underlying asset behind the securities is physical gold itself. This presents an opportunity for existing gold loan players to venture into new product offerings for these companies. Though the operational aspect of the product might vary from the existing offering, the underlying asset remains the same.

"

Gold loan assets have been growing steadily and the potential to grow further is high since a major part of the country's gold loan market is still in the unorganised sector. Gold prices have been rising over the years. There is also a paradigm shift on how buying gold is perceived today. Traditionally gold was purchased for historical, cultural and societal reasons and while that continues, people have started buying gold as an investment and also as a convenient option to raise funds for financial requirements."

- Shaji Varghese, CEO,
Muthoot FinCorp Limited

Figure 4: Evolution of gold loan market

2007–2012

- Rapid urbanisation
- Upswing in middle class incomes
- Substantial increase in gold prices
- Gold loan NBFCs rapidly expanded their network
- Customers availed more gold loans as it translated into higher credit values for their gold assets

2012–2015

- Growth trajectory witnessed significant slowdown
- RBI's decision to revoke PSL status for gold loan resulted in increased cost of funds
- Decline in gold prices led to unfavourable LTV
- In some cases, the value of gold loan exceeded the collateralised gold, contributing to increasing NPA in the industry.
- RBI reduced LTV from 85% to 75%

2015–2018

- Gradual recovery witnessed
- Improved operational efficiency
- Improved customer experience
- Demonetisation further affected demand
- NBFCs faced liquidity crisis, hindering their ability to meet credit demands

2018–2022

- The COVID 19 pandemic resulted in a cash crunch
- NBFCs further streamlined operations, reduced costs
- Introduced innovative products like digital gold loans, top up loans and doorstep gold loans
- AUM of leading companies observed 20% growth
- Managed NPAs through collection mechanisms and stringent auction policies

2022–2024

- Increased digital penetration in the gold loan space
- Growth of FinTech partnership model
- NBFCs primarily focused on South India increased geographic footprints to other parts
- Increased penetration from banks

2024

- Increase in the gold prices.
- Regulatory Intervention - fear of loan to value limit breaches
- Shift towards improved operational efficiency
- Focus on risk management
- Emergence of AI tools, facilitating risk management

Source: PwC Analysis; RBI circular Lending against Gold Jewellery

Market outlook

Gold loan is taking precedence among other secured lending products

Recently, banks have seen a notable increase in their exposure to unsecured loans – a development that has received regulatory attention. Financial services sector has been enjoying strong growth in profitability generated by supporting the growing credit demand with unsecured lending products like personal loans and buy now, pay later (BNPL) options. However, the strained portfolio driven by low ticket size and high risk customers has been coming into the limelight, especially given that the risk weightage for unsecured loans has increased from 100% to 125% after RBI's action which has led banks to reduce their capital towards unsecured lending. This portfolio was driven by FinTech companies and NBFCs acquiring new-to-credit customers and customers – mostly millennials and Gen Z – who are opting for small ticket loans. However, cases of defaults have been higher in these scenarios which has led to poor quality of portfolio in unsecured credit. This has been restricting the growth runway in these segments. Hence, financial institutions are swiftly pivoting towards secured lending due to which gold loans have emerged as an attractive option.

Organised players like banks (public, private, small finance and cooperatives) and NBFCs have started focusing their efforts towards increasing the gold loan business. Initially, traditional banks entered the gold loan business by leveraging their established infrastructure and customer base. However, the emergence of NBFCs brought competition fueled by flexible interest rates and faster turnaround time. This competition spurred growth in the sector, with both banks and NBFCs expanding their gold loan portfolios to capitalise on the lucrative market opportunity. With other organised players also entering the market, each financial institution had to adopt diverse strategies to enhance their customer reach, service capability and book size. This dynamic business landscape continues to evolve as players seek to capture market share and sustainable profits.

Several banks and NBFCs have partnered with FinTechs to enhance customer acquisition, generate more cross-selling opportunities and digitise the gold loan process. Even major private sector banks which previously had limited involvement in this area are shifting their focus to this trend. Gold loans acts as a catalyst to attract new to credit retail and micro, small and medium enterprises (MSME) customers taking care of liquidity and understanding repayment trends resulting in financial inclusion. Consequently, challenges such as fraud prevention, assessing gold purity and effectively targeting the right customers have been successfully addressed by strategic partnerships and technology.

Table 2: Gold loan business metrics across different players[8]

	Banks	NBFCs	Nidhi companies	Un-organised lenders
LTV (Throughout the loan lifecycle)	75%	75%	Up to 80%	Up to 90%
Interest charges	10%-18% p.a.	10%-21% p.a.	11.50%-20% p.a	25%-36% p.a
Processing fees	• No processing fee and nil/minimal appraisal fee is charged for small ticket loans • Both processing and appraisal fees are charged for high-ticket loans	• Nil or minimal processing fee; No appraiser fee	• Minimal processing fee (0.50% of loan value + GST) + appraiser fee membership fee	• Minimal processing fee (fixed value per loan)
Channel	Branch	Branch, Doorstep	Branch	Local shops
Penetration	High	High	Low (Rural and semi-urban areas)	High
Mode of disbursal	Cash (INR 20,000), electronic transfer	Cash (INR 20,000), electronic transfer	Cash, electronic transfer	Predominantly cash (No limit)
Working hours	Typical banking hours	Open beyond banking hours	Typical banking hours	Open beyond banking hours
Turn Around Time (TAT)	15 to 20 minutes	15 to 20 minutes	15 to 20 minutes	10 to 15 minutes
Documentation	Complete KYC compliance	Complete KYC compliance	Minimal documentation and basic KYC check	None
Fixed office space	Bank branches	Physical branches with dedicated staff for gold loans	Physical branches and they serve for people within a specific region	No specific location and smaller local shops

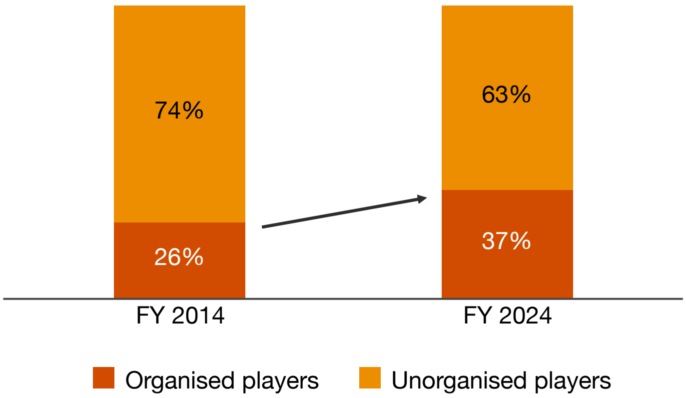
Source: PwC analysis

Recent trends in the gold loan market

The gold loan market is set for further growth, driven by the sustained increase in per-gram gold rates and customer demand. The unorganised sector accounts for 63% of the gold loan market, while organised players like banks and NBFCs have a 37% share.[9] There is a huge opportunity for organised players to grow the gold loan market in India.[10]

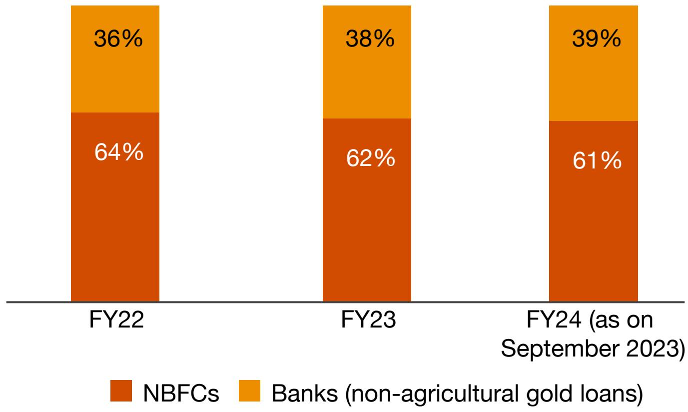
8 PwC analysis
9 Ibid.
10 Ibid.

Figure 5: Share of organised and unorganised sector in gold loan market



Source: PwC analysis

Figure 6: Market share in gold credit: NBFCs vs banks



Source: CRISIL Ratings

Though there are several reasons for the decline in the proportions of unorganised firms in the gold loan market, one of the primary reasons was the introduction of digital platforms and technical advancements made by the formal lenders and development of formal lending networks into semi-urban and rural regions which made it easier for the borrowers to avail the loans due to enhanced accessibility and reasonable rates. Furthermore, regulatory restrictions and procedures in place gave a push to the formal lenders which decreased the dependence on the informal sector.

An interesting trend can be observed in the increasing share in gold credit of NBFCs in the recent years. This could be attributed to their specialisation in gold loans, customer reach, and strategic flexibility. NBFCs have enhanced their process efficiency, expanded their branch networks and adopted digital platforms, making loans more accessible. Strategic initiatives, including aggressive marketing, partnerships and innovative loan products tailored to the customers' needs have also played a crucial role in increasing the gold credit of NBFCs.

Gold loan market size

Market overview

INR 126 lakh crores	INR 7.1 lakh crores	5.6%
Gold holdings	Current gold loan market size	Gold loan market penetration

Source: PwC analysis

Indian families own massive quantities of gold, estimated at 25,000 tonnes.[11] Existing gold holdings with Indian households are valued at roughly INR 126 lakh crores. The existing gold loan market is at INR 7.1 lakh[12] crore through organised channels. However, an assumption can be made that the entire 126 lakh crores worth of gold will not be available for pledging due to various reasons like jewellery belonging to religious institutions, jewellery with emotional value, and certain jewellery held by individuals who aren't in need of finance.

Current market penetration of gold loan in India is 5.6%.[13] This indicates that there is a huge potential to be unearthed in household gold which can create a larger market for penetration of gold loans. Looking at the way market has grown historically, there is a scope for new players to enter the gold loan market.

Currently, the unorganised sector has a higher market share in the gold loan market compared to the organised sector. Amongst the organised players, NBFCs hold the highest market share. However, banks have been catching up to the race and capturing market share from the unorganised players and NBFCs. This increase in market share of banks has been due to the foray into retail gold loans in addition to the continued focus on agri gold loans.

> "The demand for gold loan is not going to reduce anytime soon as a greater part of the gold loan market still lies outside the ambit of formal finance. This leaves enough headroom for all the players involved including banks, NBFCs and FinTechs to have a share of the pie. I expect that in the days to come, digitalisation will hasten the process of bringing more and more customers into the formal sector."
>
> **- VP Nandakumar, MD and CEO, Manappuram Finance Ltd**

11 Gold investment market and financialisation: India gold market series, World Gold Council

12 PwC analysis

13 Ibid.

Geographic distribution of gold loan in India[14]

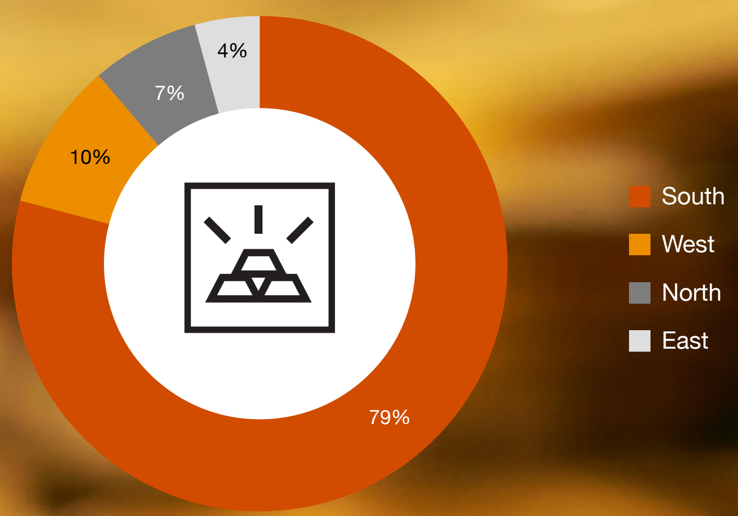
South India contributes to a vast extent, as it emerges as the dominant market for gold loans, with 79.10% share of the total outstanding loans. This is a result of the longstanding cultural affinity towards gold in South India, where it has traditionally been cherished as both a cultural symbol and a reliable investment asset.

Notable development in the gold loan market has made states such as Maharashtra, Gujarat, Madhya Pradesh forming part of the western region as the next favourable market, accounting for 9.64% of the total outstanding gold loans. This indicates a growing acceptance and adoption of gold loans driven by factors such as increasing urbanisation, economic growth, and evolving consumer preferences. This is also demonstrated with leading NBFCs establishing additional branches across these regions during FY23.

The Northeastern region of India records a minimal share of only 0.26% in the total outstanding gold loans. In the central, east, and north regions of India, the gold loan outstanding figures range between 3.42% to 3.97%, indicating a relatively moderate yet significant presence of gold loans across these regions.

Figure 7: Geographic distribution of gold loan in India

Gold loan O/S



Source: PwC analysis

14 PwC analysis

Shift in customer segment

Breaking taboos: How gold loans are driving financial inclusion

Gold has an important role in the socio-economic culture of India. Gold is considered to be an important asset, a hedge against inflation and an immediate source of cash, especially for the rural household in India. In order to meet short-term financial needs, people pledge their gold ornaments as collateral. Although there is already a social stigma associated with taking out loans in many communities in India since this can be perceived as a sign of financial instability, the stigma intensifies when the loan is secured by pledging personal gold ornaments, or those that have been passed down through many generations in Indian families.

Despite the stigma associated, gold loans have been instrumental in promoting financial inclusion in India by providing access to credit for the rural, micro, small and medium enterprises (MSMEs) and underserved segments of the population who are new to credit segment. The faster time for credit disbursal coupled with simpler loan application journey has led to a growing customer base. This notable rise in lending volumes suggests that the social stigma associated with gold are fading away and these loans are empowering women entrepreneurs in rural and underserved areas.

Younger generations and gold loans

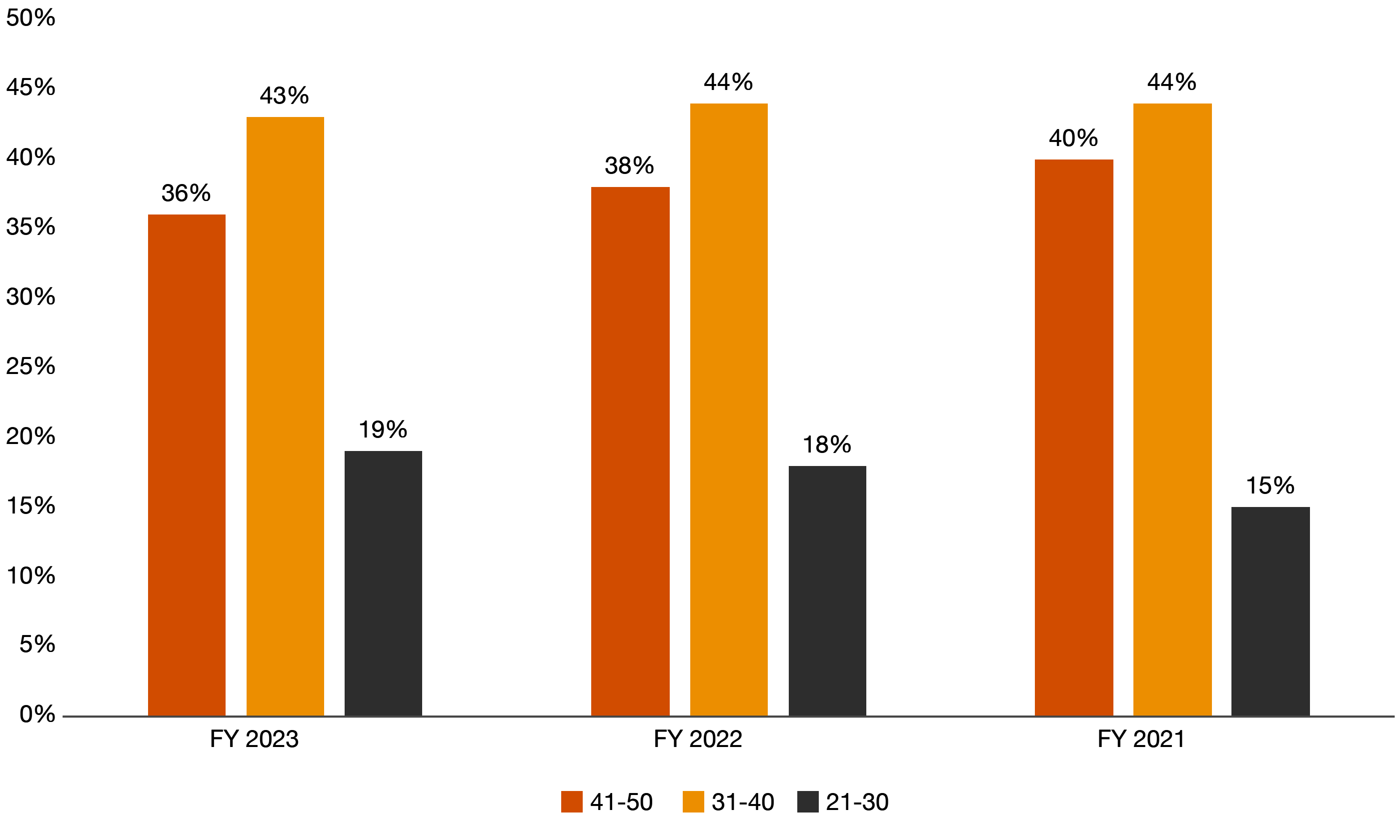
India has a larger percentage of Gen Z population (people born from mid-to-late 1990s through the early 2010s) which accounts to more than 25% of Indian population. Millennials and Gen X (People born from 1960s to 1997) account for approximately 63% of overall population in India as per a 2022 World bank report.[15]

The dynamic environment of borrowing and finance is undergoing a paradigm shift in the gold loan industry and the millennials and Gen Z are major contributors to the shift in behaviour and preferences. Gen Z population views gold loans not just as conservative investments but also as a flexible financial tool. Most of the younger generation population has limited credit histories and lower incomes since they are new in their careers. However, having gold backed collateral can potentially improve the credit worthiness of Gen Z individuals and may positively influence the credit limit offered to them. With a preference for digital ecosystems, young borrowers are driving the emergence of online gold loan platforms. These

15 World Bank Database

platforms streamline the application and management process, making gold loans more accessible and convenient. Financial institutions are also adapting their offerings to cater to the preferences of young borrowers which includes customisable loan terms, competitive interest rates and digital tools. As a step further, financial institutions are adjusting their marketing strategies which involve leveraging social media platforms, collaborating with influencers and creating engaging campaigns tailored to the preferences and lifestyles of millennials and Gen Z.

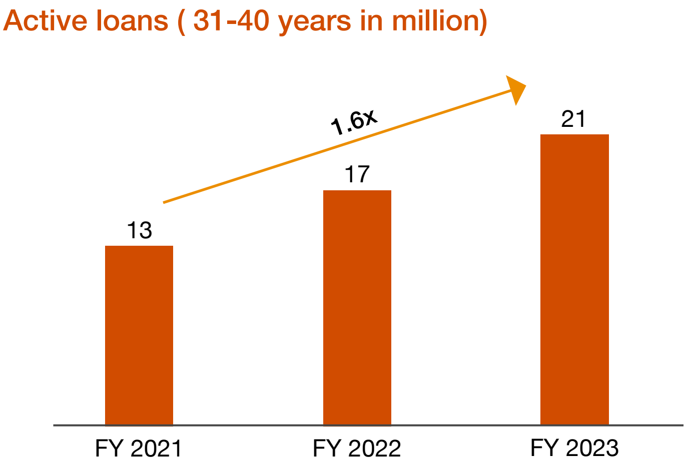
Figure 8: Disbursal amount comparison across age groups (% of total disbursed amount for the fiscal year)



Source: PwC analysis

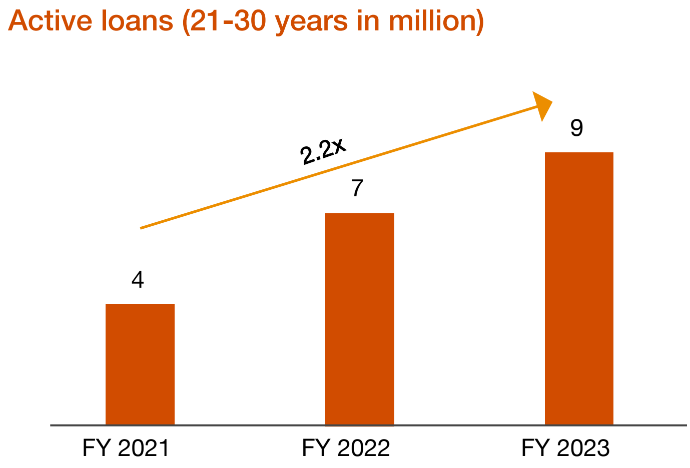
Amongst all the age groups, people in the age bracket of 31–40 years have consistently taken the highest disbursals for gold loans which has been in the range of 43–44%. This trend can be attributed to several factors. Firstly, individuals in this age bracket are typically at the peak of their careers, enjoying higher earning potentials compared to younger demographics. Additionally, lenders tend to favour borrowers with longer credit histories and positive repayment records, making this age group more eligible for larger loan amounts. Significant milestones such as purchasing a home, starting a family, or advancing careers are prevalent among individuals in this age group, motivating them to seek financial support through gold loans.

Figure 9: Active loans of age group 31–40 years



Source: PwC analysis

Figure 10: Active loans of age group 21–30 years



Source: PwC analysis

The highest number of active loans exists with people in the age group of 31-40 years which accounted for ~44% of the total active loans in FY 2023.[16] The number of active loans in this age group increased by 1.6x when compared with the active loans in FY 2021.[17] Also, a significant upward trend in active loans is observed in the 21–30 years age group, which represented a 2x increase in the number of active loans when compared with FY 2021.

Navigating the complex challenges for institutions in the gold loan sector

Over the past decade, the gold loan sector has seen remarkable growth, with various organised players like private, public banks, small finance banks, cooperatives and NBFCs contributing significantly, making up about 37%[18] of India's gold market. However, with this growth, comes a heightened responsibility to ensure the safety of valuable assets. Some of the factors to be considered are:

Security: A major challenge faced by financial institutions who are dealing in gold loan is security. While many branches are equipped with real-time monitoring capabilities, it is important for rural and semi-urban branches to equip themselves with these capabilities, making it easier for them to detect suspicious activities or robberies as they happen. AI-powered surveillance cameras can analyse live video feeds from branches detecting unusual activities or security threats in real-time. Moreover, there is also a need for proactive notification systems to alert security personnel about potential threats.

Fraud: When it comes to fraud, spurious gold being pledged as genuine poses a significant threat, as does accepting stolen gold without clear ownership documentation. There is also the possibility that employees might accept bribes from borrowers to manipulate the loan's terms or work with them to inflate the value of pledged gold. They could also misappropriate gold assets by substituting them with lower-quality alternatives. Over the last three years, multiple instances of fraud in the gold loan sector have been reported in media, amounting to INR 30–35 crores.[19] However, these numbers may not reflect the true extent of the issue, as many cases often go undetected or unreported.

16 PwC analysis
17 Ibid.
18 Ibid.
19 Ibid.

Gold valuation: Another challenge is the difficulty in determining appropriate valuation for the assets. Since the valuation of gold is largely a manual exercise, players in this industry face challenges related to human capital shortfall, wrong valuation and frauds related to valuation. Many players also rely on external resources for valuation which can also pose a challenge in operating under a defined turnaround time.

Huge investment on infrastructure: Traditional gold loan players depend heavily on branch-led business which involves incurring huge investments into physical infrastructure. This also increases the operational issues due to multiple branch network.

To address these challenges, there is a need for enhanced regulatory oversight, improved internal controls and greater transparency throughout the lending process. By tackling these issues head-on, stakeholders can work towards minimising fraud and preserving trust within the gold loan sector.

"The taboo associated with gold loan as a distress borrowing, which traditionally catered to the older generation, is a thing of the past. Gold loan is now the preferred option to all sections of the society including Gen Z. The scope for further expansion is vast given that barely a fraction of the gold loan business is under the organised sector."

- K.R. Bijimon, Executive Director and COO, Muthoot Finance Ltd

Gold loan for rural India

Gold is an important asset class in rural India with rural households holding a majority share of India's gold.[20] Demand for gold loans from rural economy is expected to be impacted by inflationary pressures and an erratic crop season, impacting farmers' income. With more than 90% of the market still unaddressed, there lies huge opportunity to venture into the untapped regions of India.[21]

Table 3: Share of gold loan market: Rural, semi-urban and urban markets

Region	Gold loan disbursements	Active gold loan
Rural	35%	37%
Semi urban	42%	44%
Urban	23%	19%

Source: PwC analysis

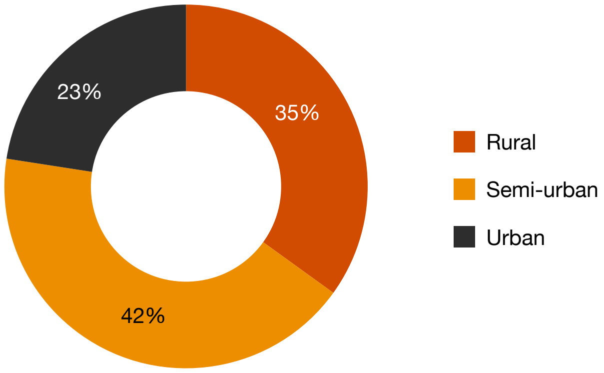
The gold loan disbursements in the semi-urban region have been higher as compared to the rural and urban geographies. One of the reasons behind urban region being lowest amongst all three for both the parameters could be the availability of choice with the customers. Urban customers can choose from a variety of financial products for savings and investments, therefore, the market is divided. However, the semi-urban and rural have a lower amount of choice available with them with respect to financial products and due to the reach of gold loan providers being higher in these geographies – the share of semi-urban and rural in the overall gold loan market has been higher (both disbursements and outstanding).

20 Gold investment market and financialisation: India gold market series, World Gold Council

21 PwC analysis

Figure 11: Share of gold loan disbursement: Rural, semi-urban and urban markets

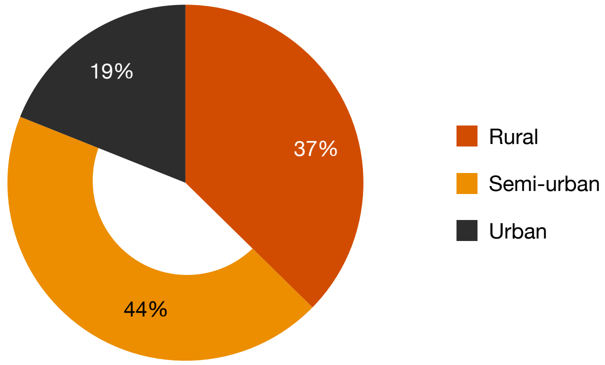
Gold loan disbursements



Source: PwC analysis

Figure 12: Share of active gold loans: Rural, semi-urban and urban markets

Active gold loans



Source: PwC analysis

Reasons for the preference of gold loan in rural India

Savings: In India, the savings habit of individuals is largely driven by their geographic location. The urban cities have access to traditional as well as alternative financial services products. Rural India, however, prefers traditional financial products. Gold loan is one of the traditional financial product given the cultural significance of gold, hence is popular amongst the rural customers.

No credit history: Since gold loan is a secured product and credit history does not play a huge role in securing a gold loan, this segment of the population prefers this product as it provides a financial avenue without lengthy procedures of ascertaining credit history.

Trust in banks and NBFCs: In the past few years, major NBFCs and banks have been successful in creating a sense of trust amongst the customers in rural areas who have been exploited by unorganised players who charge higher interest rates. This trust has been fueled by the transparency, safety of asset and affordable interest rates.

Non depreciating liquid asset: The very nature of gold asset is that it is non depreciating and highly liquid. This makes gold an attractive asset amongst all other traditional assets like land. The demand for gold asset in turn makes the gold loan product a better proposition.

Agri gold finance option: Financial institutions offer gold loan at a lower interest rate for customers who own agricultural land. This is a part of the priority sector lending initiative started by the Government of India.

“

As the Indian economy burgeons, the gold loan market shows great promise. With a rich cultural heritage related to gold and an ever-increasing demand for credit, India’s gold loan sector is poised for robust growth – most of it coming from small towns and villages. The market is further supported by the ease of loan processing, lower interest rates, and the absence of a credit score requirement for borrowers. These elements, coupled with rising gold prices, ensure a secure and appreciating collateral, fostering expansion for the gold loan business.”

- Umesh Mohanan, Executive Director and CEO, Indel Money Ltd

Key growth drivers for gold loans

01 Favourable gold prices

High gold prices make gold loans extremely attractive as in an increasing price scenario, the value offered per gram of gold increases, fetching customers significantly more value and thus increasing demand.

02 Demand from the MSME sector

Gold loans have emerged as a safe choice for banks to provide credit to MSMEs due to ease of availability, low credit and instant access to cash. From a process standpoint, gold loans from NBFCs are more favourable for MSMEs due to the quick disbursal process.

03 Impact of government gold loan policies

Government gold loan policies can significantly impact gold consumption and demand for gold loans. Lower interest rates, relaxed lending norms and tax incentives typically boost gold purchases. Conversely, higher interest rates, stricter lending norms, increased taxes, and promotion of alternative financial products tend to reduce gold loan demand and decrease gold consumption. For instance, India's increased LTV ratio during the pandemic boosted gold loans, while schemes such as gold monetisation schemes aimed to reduce reliance on physical gold.

04 Strategic branch expansion and entry into underpenetrated markets

Indian households collectively have some of the largest reserves of gold in the world.[22] However, the market penetration of gold on the basis of allocation of debt in the form of gold loans remain minimal. Gold loan lenders ensure that their services are accessible to a wider demographic through physical branch presence, enhancing customer convenience. They also see a trend of gold loan lenders expanding their geographic footprint to rural regions.

22 Gold investment market and financialisation: India gold market series, World Gold Council

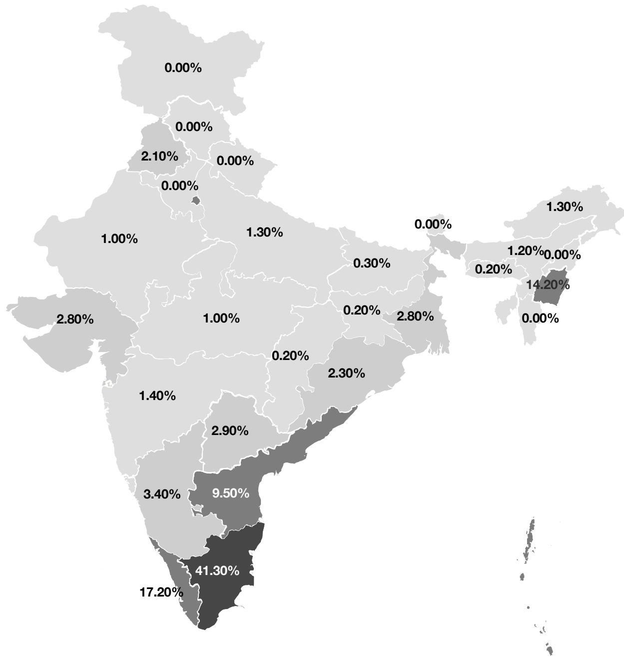
Figure 13: Share of gold in household assets

Share of gold in household assets

Source: RBI: Indian Household Finance

Figure 14: Active loans of age group 21–30 years

Share of gold in household debt



Source: RBI: Indian Household Finance

Although gold comprises a significant share of the assets held by Indian households, the proportion of gold loans in the total household liabilities is low in most states.[23] There is market potential for gold loan players in the western parts of India where the allocation of gold in the form of assets is high but the proportion of liability in the form of gold loans is low. Gold loan players can tap into these underpenetrated markets through branches and other channels to build a strong portfolio and enhance their market presence.

05 Product characteristics

Since the custody of the pledged gold is with the branch, it is easier for lenders to initiate an auction in the event of non-repayment of loans by borrowers, thus maintaining low non-performing assets (NPA) levels. This makes gold loans an attractive proposition for lenders as a low risk-high return product. Lenders in the gold loan market have prudently managed asset quality by conducting timely auctions.

06 Digital products

More investments are expected in digital products such as doorstep gold loan. Digital products have also led to greater social acceptance of gold loan products.

23 RBI: Indian Household Finance

Operating models for gold loans

Existing players have adopted three business models to cater to gold loan customers.

Table 4: Gold loan operating models

	Branch model		Non-branch model (FinTechs)
	Branch (only gold)	Branch (multi-product)	FinTech/phygital
Characteristics	Only gold loan branches	Gold loans are part of other products in the branch	100% focus of the sales is on gold loan
OpEx (%)	5–7%	4–6%	17–20%
Pre-tax Return on Assets (ROA)	Higher (~7–8%)	Low (~2-5%)	Negative (due to cash burn)
Customer retention	High customer stickiness (~70%)	Existing customer base high stickiness	Low
Collections team	No	Yes	Minimal
Vintage	>40 years	>40 years	4 years
Delinquency (%)	1–3%	1–3%	2–3%

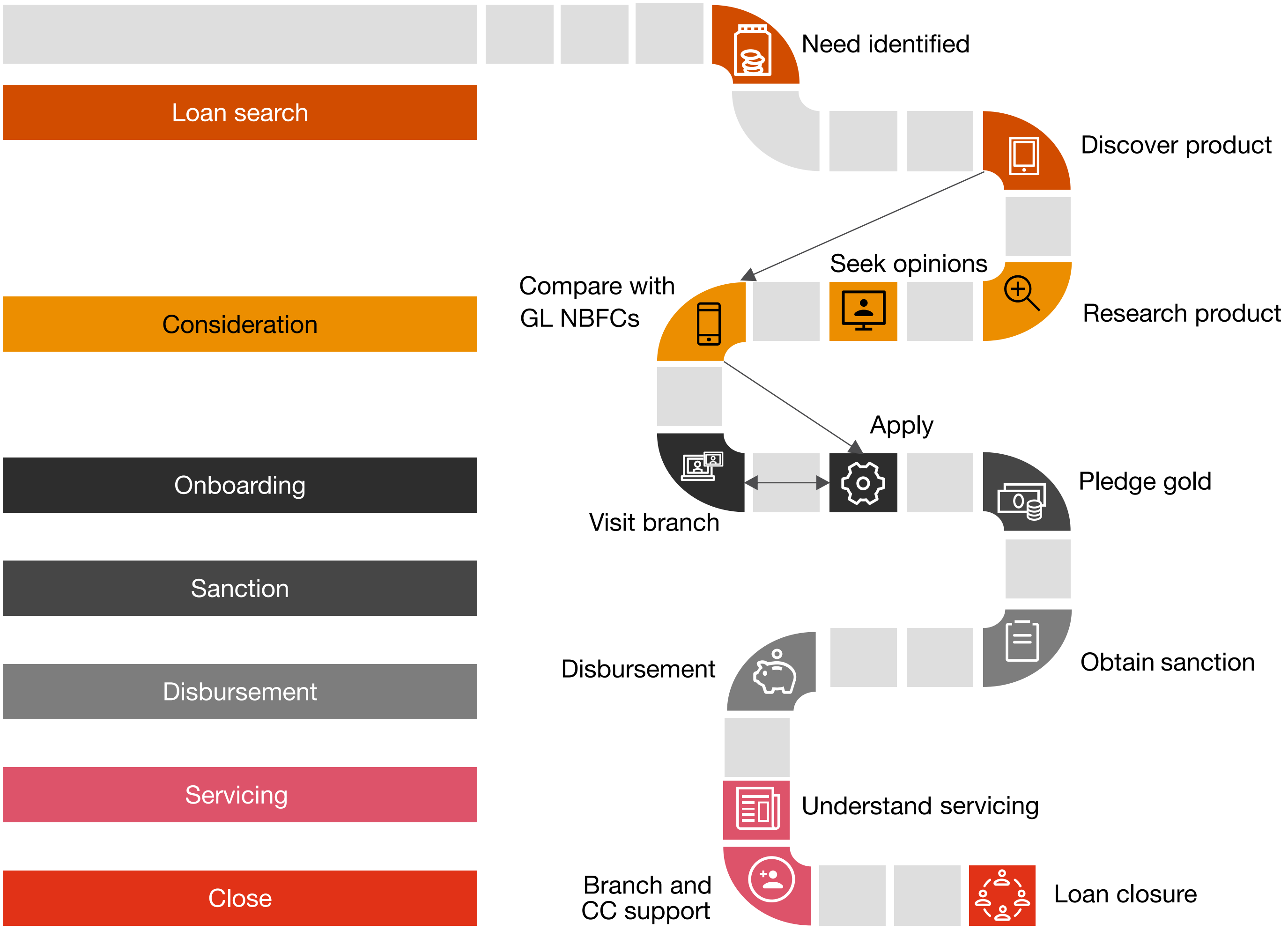
Source: PwC analysis

Traditional NBFCs adopted the branch model for entering the gold loan business. These were standalone branches dedicated to one single product – gold loans. However, as gold loans became increasingly formalised, banks started to participate and added gold loans to their product suite. After a while, NBFCs decided to diversify their operations and started offering multiple products like personal loans and other asset-backed financing options at existing branches. This led to the evolution of the traditional gold loan NBFCs moving from a single product branch model to a multiple product branch model.

With the emergence of FinTech and disruption of business models, the gold loan market saw innovation in the form of digitisation of multiple operations. However, a completely digital gold loan solution fails to the desired audience due to lack of trust in an institution with no physical presence.

To enjoy the advantages of both the physical branch and digital models, gold loan businesses are adopting a hybrid approach – phygital processes. Under this model, a certain section of the processes is digitised while maintaining physical branches that customers can reach out to.

Figure 15: Issues encountered in the traditional channel



Consideration	Not enough information is available about the product for comparison and there is no aggregator helping the customer make an informed decision.
Onboarding	There are multiple channels for onboarding and lenders face issues in deciding the channel to be adopted for maximum traction.
Sanction	Multiple fields of customer data are requested for application and the approval goes to multiple stakeholders, which makes it difficult to reduce the sanction TAT.
Disbursement	Currently, lenders are facing challenges with disbursing loans in cash due to stricter regulatory norms. Payment gateway failures and delays have also caused problems in the disbursement process.
Account management and closure	Customers have to make multiple visits to the branch for availing additional services/ requests or to close the loan and collect their gold

Shift in operating models

Leveraging FinTech partnership to clear bottlenecks in the traditional channel

Banks and NBFCs have huge potential to leverage FinTech partnerships by digitising the gold loan process. This comes with mutual benefits as FinTechs get to leverage and capitalise on the network and capabilities of lenders. Lenders can, in turn, streamline their processes and operations by improving their technological capabilities.

Lenders have been leveraging FinTechs' extensive customer networks and digital channels to expand their market reach and capture new customer segments. In the current ecosystem, the role of FinTechs is not limited to sourcing loans. They have expanded to include support services such as KYC, valuation and branch surveillance, and help in removing the critical bottlenecks that a customer faces during the lifecycle of a loan availed through the traditional channel.

Partnerships between FinTechs and lenders provide for an enhanced customer experience. There are aggregator platforms that consolidate details of all the players in the market, making it easier for consumers to choose a suitable player. KYC solutions from FinTechs help in smoother customer identification and verification, fraud detection and compliance with anti-money laundering (AML) guidelines. FinTech players also use AI to provide security solutions to gold loan players in the form of surveillance tools, thereby helping to reduce fraud.

> "
>
> Gold loans are one of the easiest ways to procure emergency funds for individuals as well as SMEs. Products such as doorstep gold loans now allow customers to avail loans from the comfort of their homes which is a win-win situation for both customers and lenders."
>
> **- V.P. Nandakumar, MD and CEO, Manappuram Finance Ltd**

The co-lending model is reshaping the gold loan industry

The gold loan industry has witnessed a significant transformation, with the co lending model emerging as an innovative approach, combining the strengths of innovation and collaboration. Traditional financial institutions such as banks and NBFCs have built synergies, where the former bring in low cost funds for financing customers and the latter bring in their customer base.

The model also ensures that risks are being diversified, with all players leveraging their strengths for their mutual benefit. The central authorities have also played a crucial role in facilitating this transformation, aiming to enhance the flow of credit to the underserved segments of the economy. This partnership between traditional financial institutions and new age players in the industry has enhanced end to end processes, thereby ensuring higher operational efficiencies and enhancing customer service.

Central gold repository

The emphasis laid on gold safekeeping makes gold loans a capital-intensive business, heavily dependent on the strong infrastructure of safes, vaults and security monitoring systems at branches. To address this, solutions such as a central gold repository have been proposed.

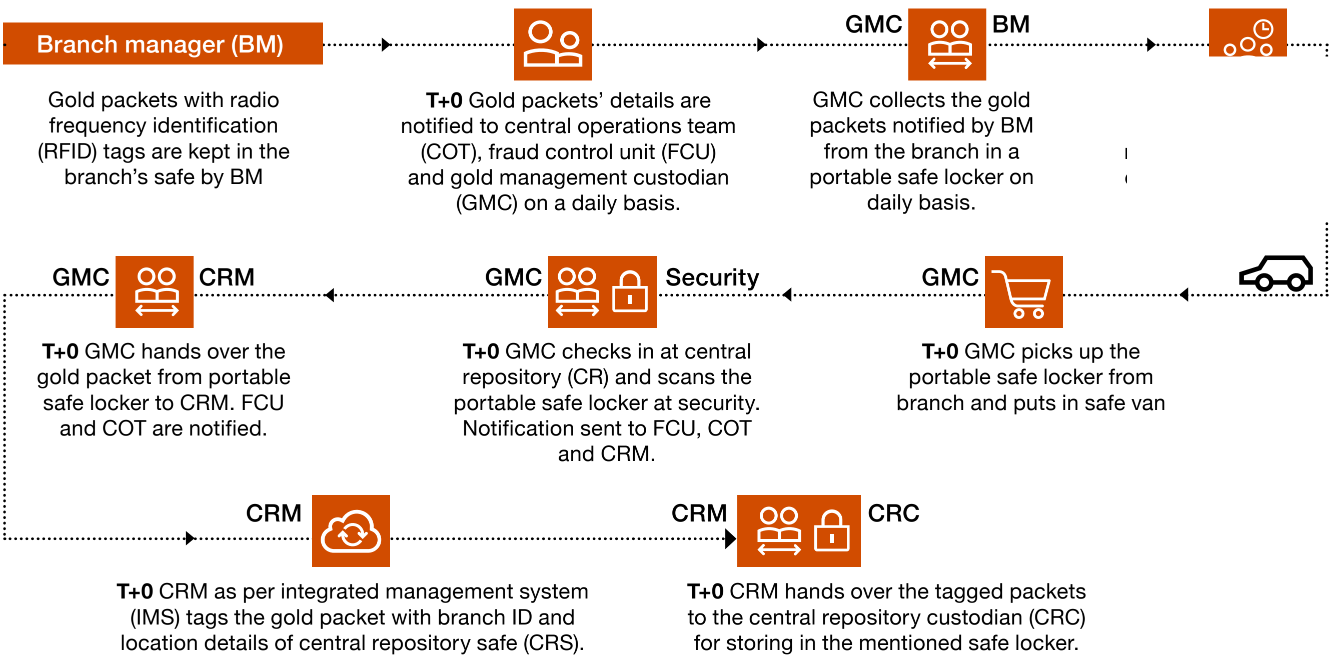
The central gold repository would serve as a secure and efficient hub for storing gold. Since gold assets from multiple locations would be consolidated at a single hub, security at such a repository will be remarkably high and also help in streamlining logistics for the movement and placement of gold.

Pledged gold collected at branches can be moved to a central repository within an assigned TAT. This would enable lenders to focus on operational efficiency and customer service while reducing the cost of infrastructure incurred for safekeeping the gold. The location of the repository is of utmost importance to ensure minimal impact on customer service and an efficient TAT, thereby increasing its importance in the gold loan industry.

Although a centralised gold repository for branches can prove to be a cost-effective and efficient system for financial institutions, it can hamper the customer experience as the TAT for returning the gold back to the customers during an unplanned closure of a loan can go beyond the conventional time.

Figure 16: Central gold repository storage process flow

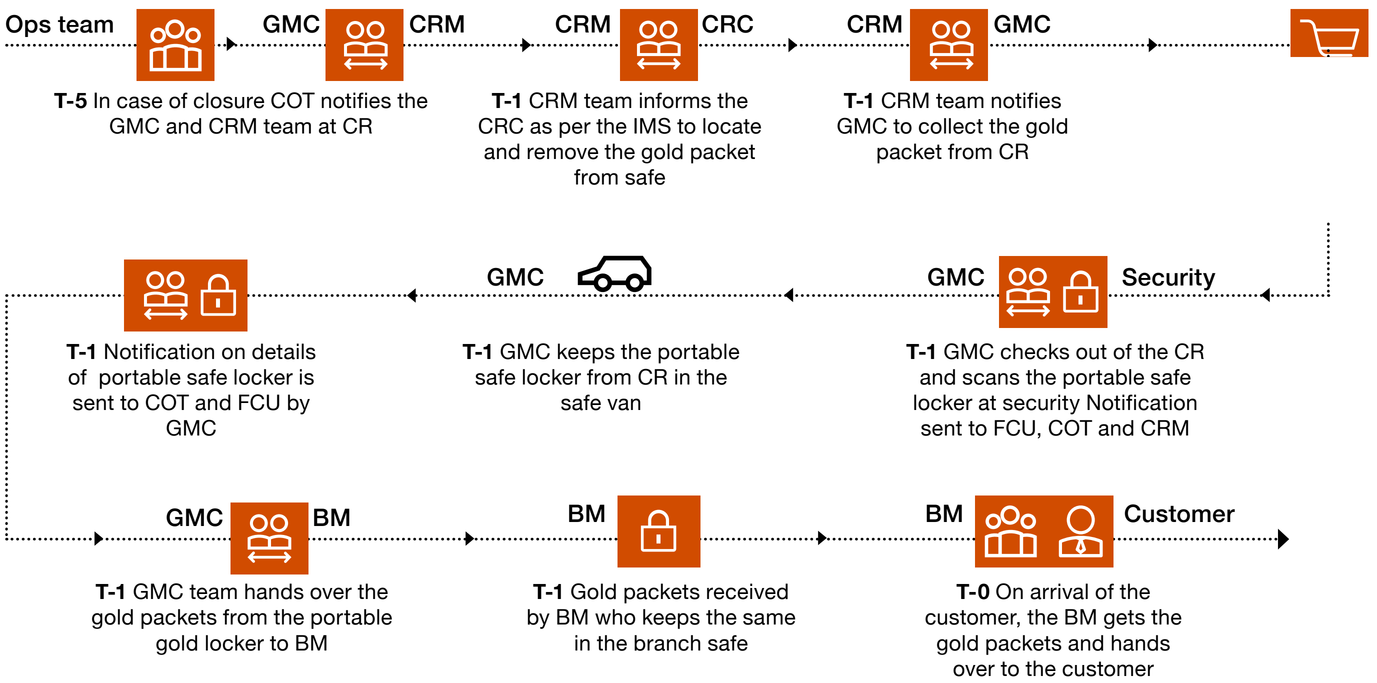
The figure below sets out how teams generally operate to store at a central repository



Activities	R	A	C	I
Gold packing and tagging	BM	BM	FCU	Central ops team
Gold deposit in branch safe	BM	BM	FCU	Central ops team
Gold packets kept in portable safe locker	BM	GMC and Vehicle Manager (VM)	FCU, VM	Central ops team
Gold packet in-transit	Central ops team	GMC and VM	-	Central repository manager
Gold packet handed to CRM	Gold management custodian	Central repository manager (CRM)	-	Central ops team, FCU
Gold packet in central repository SAFE	Central repository manager	Central repository custodian	FCU, IT	Central ops team

Figure 17: Central gold repository closure process flow

The figure below describes how teams generally operate in case of gold loan closure



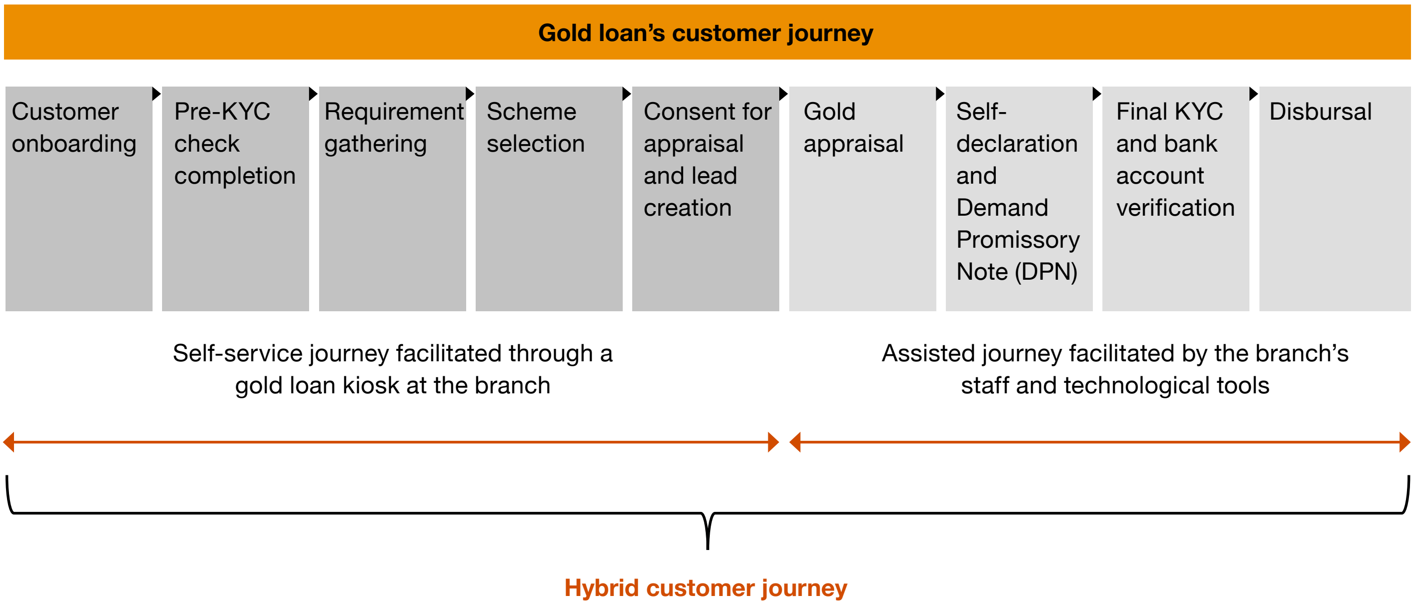
RACI matrix of auction and closure process

Activities	R	A	C	I
Central repository safe	Central repository manager	Central repository custodian	FCU, IT	Central ops team
Gold loan closure/auction	CRM, CRC,BM	Central ops team	FCU	GMC
Gold packet in transit	Central ops team	Gold management custodian	-	Central repository manager
Gold packet at auction centre	BM	Central ops team	FCU	-
Portable safe locker for gold in transit	Central ops team	Gold management custodian	VM	Central ops team
Gold packet handed to CRM	Gold management custodian	Central repository manager	-	Central ops team, FCU
Gold packet in central repository SAFE	Central repository manager	Central repository custodian	FCU, IT	Central ops team
Gold keeping in branch safe	BM	Branch manager	FCU	Central ops team
Gold returned to successful bidder/ customer	Central ops team	Branch manager	FCU	-

Source: PwC analysis

Self-service model

Figure 18: Gold loan customer journey: Self-service model



Source: PwC analysis

The innovative approach of kiosk-based gold loans represents the convergence of self-service and assisted models, revolutionising the customer experience. The journey begins with seamless customer onboarding, where pre-KYC checks are swiftly completed, followed by comprehensive requirement gathering and personalised scheme selection. KYC and the onboarding process are performed through the self-service model along with AI intervention.

With the customer's consent, the process proceeds to gold appraisal, facilitated either autonomously through the kiosk interface or with the assistance of AI. Incorporating elements of self-declaration and digital pawn note (DPN) issuance further streamlines the process, ensuring compliance and transparency at every step. The final stage entails rigorous KYC verification and bank account validation, culminating in swift disbursal of funds. This cutting-edge solution not only minimises inefficiencies and human intervention but also caters to diverse customer preferences through both the self-service and assisted models. By embracing technology-driven innovations, the gold loan industry is poised to become increasingly tech-savvy, enhancing accessibility, efficiency and customer satisfaction in the process.

This pioneering concept seamlessly combines traditional pawn services with modern automation, offering a swift and efficient solution for individuals in need of immediate financial support. The use of AI technology and metal analysers ensures accurate and fair assessment of gold, instilling confidence in customers and enhancing transparency in the loan process.

Currently, the gold loan business is dependent largely on manual intervention for valuation, onboarding and servicing. With the integration of technology and customer service, this manual intervention can be brought down, in turn providing a better and efficient service line for lenders. These AI-enabled kiosks can prove to be cost-efficient and help financial institutions to expand their product portfolio to gold loans in branches which previously did not service gold loans. Traditionally, multi-product branches relied on external resources for the purpose of valuation which resulted in extended TAT for servicing of the loan. This can be reduced by implementing such devices which employees can use at the branches.

Loans against sovereign gold bonds (SGBs) and gold-based ETFs

In today's ever-changing financial landscape, investors and borrowers are looking at innovative and diversified collateral options to access liquidity while retaining ownership of assets. Loan products such as loans against SGBs and ETFs have emerged as viable alternatives to traditional collateralised lending alternatives, i.e. gold loans.

SGBs are government securities denominated in grams of gold. They are alternatives physical gold holdings. Investors must pay the issue price in cash, and the bonds will be repaid in cash at maturity. The RBI issues the bond on behalf of the Government of India. The amount of gold for which the investor pays is safeguarded since they obtain the current market price at the time of redemption/premature redemption. The hazards and expenses of storage are avoided. Investors are guaranteed the market value of gold at maturity and are entitled to receive monthly interest. SGBs eliminate issues such as manufacturing charges and purity in the case of gold in jewellery form. The bonds are kept in the RBI's records or in demat form.

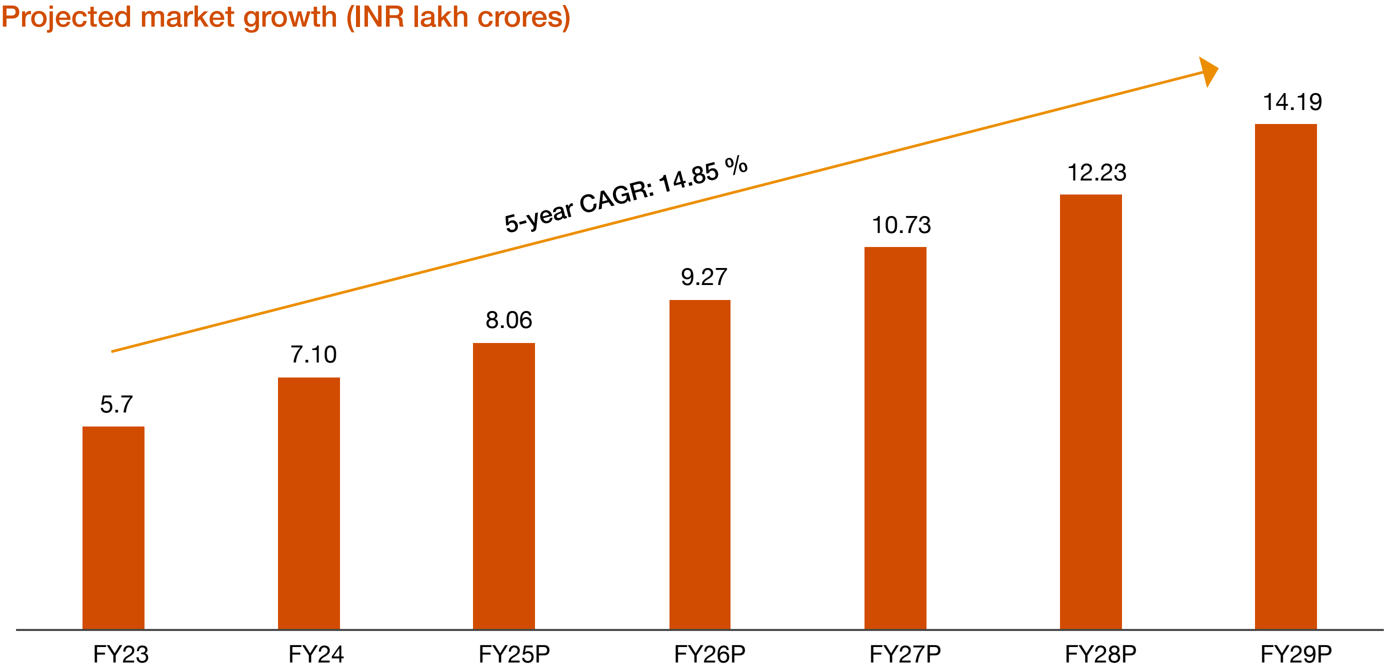
Similarly, gold ETFs are exchange-traded funds that invest in physical gold bullion or other gold-related assets. Investors can make use of the value of their gold ETFs without having to sell them, providing immediate access to funds for various purposes. By holding gold ETFs, investors can maintain their exposure to the gold market and continue to benefit from the price appreciation.

While loans against traditional asset classes are prevalent in the existing lending landscape, ETFs and SGBs are a relatively new concept for the market and investors. As awareness and understanding of these products grow among investors and borrowers, these loan products have the potential to gain widespread acceptance and adoption in the future.

Future of gold loans

In FY 2024, the organised gold loan market demonstrated substantial growth, reaching a valuation of INR 7.1 lakh crore. It is expected to reach around INR 14.19 lakh crore by FY 2029 at a five-year CAGR of 14.85%.[24]

Figure 19: Projected gold loan market growth (INR lakh crores)



Source: PwC analysis;

Note: The gold loan market size projections have been developed using gold loan market trends, macroeconomic factors, customer behavioural trends, the shift in the market from unorganised to organised lenders as well as insights from PwC Generative AI Technologies, the proprietary GenAI tool of PwC.

The gold loan market is poised to see moderate growth over the next two years, as gold lenders are facing increased scrutiny from regulatory authorities regarding LTV maintenance and auction-related procedures. The second largest player in the gold loan market being inactive would have an impact on market growth in FY25. Also, the RBI's advisory to NBFCs on cash disbursement, which limits the amount of cash disbursal to INR 20,000[25], could push customers to rely on the unorganised sector. The regulator has also raised concerns about the evaluation process for lending activities through FinTech start-ups. The increased regulatory scrutiny and revised guidelines have led to a dip in the share prices of leading NBFCs.

24 PwC analysis

25 Section 269SS of Income Tax Act

Gold loan lenders are expected to use this period to ensure that they are compliant with all regulatory guidelines while undertaking several measures to optimise their middle and back offices through digitisation initiatives. Lenders are also expected to implement cost optimisation initiatives that will help drive up the bottom-line profitability of their companies and enhance investor confidence which has slightly depleted as a result of the regulatory scrutiny. Furthermore, rising gold prices over the past financial year may also drive lenders to take a cautious approach to lending rates and pricing as any downward movement in gold prices will result in a substantial LTV breach that will further create operational issues for lenders in the form of auctions.

The growth of the gold loan market is expected to be steered by both banks and NBFCs. The emergence of digital gold loan aggregator platforms and their strategic collaboration with gold loan lenders such as banks and NBFCs will be a key driving factor for the growth of the industry, enabling gold loan lenders to tap into a previously untapped segment of digitally savvy customers.

While the forecasted growth of the gold loan market means potential growth for all players, the impact on the players may vary. Banks are expected to benefit from their lower interest rates. For banks, the growth of the gold loan market and tapping into this growth would provide opportunities for diversification of portfolio and risk mitigation by holding a secured portfolio. This would also help banks improve their customer portfolio and stickiness.

Growth by NBFCs is expected to be fuelled by their expansion and increased outreach to regions with low penetration, bringing new credit customers to the financial services ecosystem. Moreover, investments in digital products such as online and doorstep gold loan services are anticipated to contribute significantly to the growth of NBFCs in this sector. We also see a trend of diversification by gold loan NBFCs which involves reducing the proportion of gold loans in their portfolio and including other products in their product suite. At the same time, they would need to enhance their operational efficiency to compete with the growing presence of banks in the market.

“

The organised gold loan market is likely to grow over the next few years, supported by rising demand from the middle class, the unorganised sector, people engaged in agriculture and allied activities and small entrepreneurs. The availability of suitable regulation around encouraging gold monetisation and the added impetus given by banks with an extensive network of branches, coupled with their pricing power, will support both the expansion and growth of the organised gold loan market. However, any abnormal fall in gold prices or any new regulatory restrictions are likely to result in a temporary setback for gold loan’s growth story.”

- Mohan K, Executive Vice President and Country Head – Agri, Micro and Rural Banking, Federal Bank

FinTechs will play a critical role in bringing in the required technology and innovation into the industry, thus helping lenders to create unique product propositions to boost growth. FinTechs should promote growth by identifying gaps and pain points in the current business models and creating solutions that will help in driving up customer satisfaction while driving down costs by promoting operational efficiencies.

“

The gold loan market will continue the upward trend enabling the growth of the consumer credit market in India, aiding financial inclusion and playing a major role in India’s economic growth.

- Shaji Varghese, CEO, Muthoot FinCorp Limited

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