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Gold loan interest rates in organised and unorganised sector: A comparative study

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Abstract

Loan against gold always carries interest. Many nationalized banks, private banks, other financial companies and money lenders offer gold loan at attractive rates. Many go for this loan for short period to meet the requirement of their children's education, marriage and other financial problems in the family. And others think that instead of keeping the gold idle at home or locker, loan against gold is the best option. Moreover with the rise in gold rates the demand from companies and banks offering such loans has raised. In this study an effort was made to analyse the rate of interest charged by organised and unorganised sector on loan lent against gold.

Keywords: Organised sector, unorganised sector, gold loan, interest rate, banks, money lenders

Introduction

India is the largest consumer of gold in the world, accounting for almost a quarter of the world's total consumption. It has, since long, maintained this position and, unlike countries like China, India uses gold primarily in the form of jewellery and investments. It is viewed as a solid instrument for investments and even traders, who are into commodities trading, invest in gold bullion. These investments are usually dictated by the gold rates prevailing in the economy at that time. A comparative study on Gold loan Schemes in organized and unorganized sectors provide a comparative statement of interest rates of gold loan of organized sector schemes and unorganized sector schemes and also preferences between organized and unorganized sectors by gold loan borrowers.

Interest

Interest is payment from a borrower or deposit-taking financial institution to a lender or depositor of an amount above repayment of the principal sum (i.e., the amount borrowed), at a particular rate.

Advantages of gold loan to the borrower

- Gold loan doesn't demand any certificate to show your salary or income and even no credit card history is required. Thus even unemployed and non-working people can go for gold loan. Unlike any other unsecured loan, gold loan doesn't require many papers, only few documents such as ID proof and address proof is enough to avail for such loan.
- One of the main advantages of gold loan is its low interest rates. Usually loan over gold is provided at the interest of 12-16% per annum and this is quite low compared to personal loans available at interest rates of 15-26% per annum.
- In rural areas Agricultural loan against gold is also available for agriculturist at very nominal rate of Interest of 7%-8%, proof of agricultural document needs to be provided
- Gold loan is the most simple and convenient forms of loan because here all that need to do is pledge the gold with a bank or finance company and get up to 80% of the market value of the gold as a loan.
- Borrower will be given an option to pay only interest during the entire term and at the end of the tenure they can pay complete borrowed amount in single shot.
- In case of gold loan processing time is very less. Usually banks take just few hours to complete the process where as in case of NBFC's (Non-Banking Financial Companies) a few minutes are enough for the same. So for immediate financial help this is the best option.

Organized Sector

The institutions which are controlled by the central bank of the country namely RBI, SEBI, IRDA are called as the organized sector. Organized sector is classified into two categories namely – banking institutions and non-banking financial Companies (NBFCs)

Un-Organized Sector

In Indian Banking System, indigenous bankers are included in the unorganized sector. These include those individuals and banks that accept deposits or depend on credit to run their business. They deal with short-term credit instruments namely hundies for the purpose of providing financial help for goods and services. The rate of interest charged by them fluctuates directly with the need and time period of the borrowers. They are the major sources of funds for small borrowers on account of simple documentation and funds are made available to the borrowers at any time during a day.

Objectives of the study

1. To study the organised and un-organised sector of banking system in India.

2. To analyse the rates of interests charged by different organized and unorganized sectors on gold loan.

Research methodology

The study is based on secondary data, Gold loan interest rates of select organised and un-organised sector for four years (i.e., 2014-15 to 2017-18) were collected from the annual reports, websites of the concerned banks NBFCs and the same were compared and analysed using tables, graphs and charts.

Sampling technique

Judgement sampling was adopted to select organised and un-organised financial institutions. Three banks selected under organised sector they were Canara bank, ICICI bank and HDFC bank. The Non-banking Financial Companies (NBFCs) or unorganised sector selected were Muthoot Finance, Manapuram finance Ltd and Pawn brokers.

Analysis and interpretation of the data

Table 1: Interest on Gold loan levied by Organised and un-organised Sector

Year	Rate of Interest	Organised Sector			Un-Organised Sector		
		Canara Bank	ICICI Bank	HDFC Bank	Muthoot Finance	Manappuram Finance Ltd	Pawn Brokers
2014-15	Maximum	16.0	16.5	21.34	24.00	26.00	48.00
	Minimum	9.65	10.0	8.96	12.00	9.90	24.00
	Actual	11.20	11.10	11.10	12.00	14.00	48.00
2015-16	Maximum	16.0	16.5	21.34	24.00	26.00	48.00
	Minimum	9.65	10.0	8.96	12.00	9.90	24.00
	Actual	11.50	11.25	11.24	12.00	14.00	42.00
2016-17	Maximum	16.0	16.5	21.34	24.00	26.00	48.00
	Minimum	9.65	10.1	8.96	12.00	9.90	24.00
	Actual	11.5	12.25	11.24	12.00	14.00	42.00
2017-18	Maximum	16.0	16.5	21.34	24.00	26.00	48.00
	Minimum	9.65	10.0	8.96	12.00	9.90	24.00
	Actual	11.70	13.5	11.67	12.00	14.00	36.00

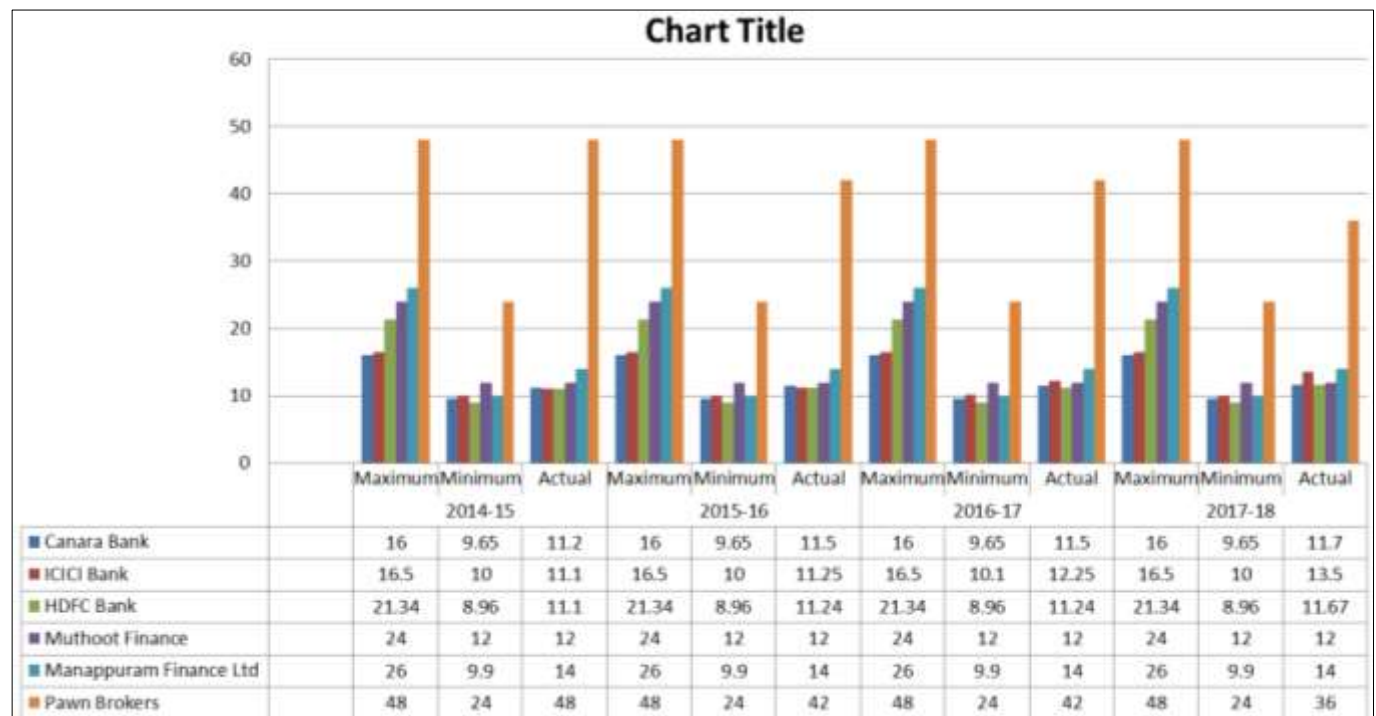


Chart 1: Interest on Gold loan levied by Organised and un-organised Sector

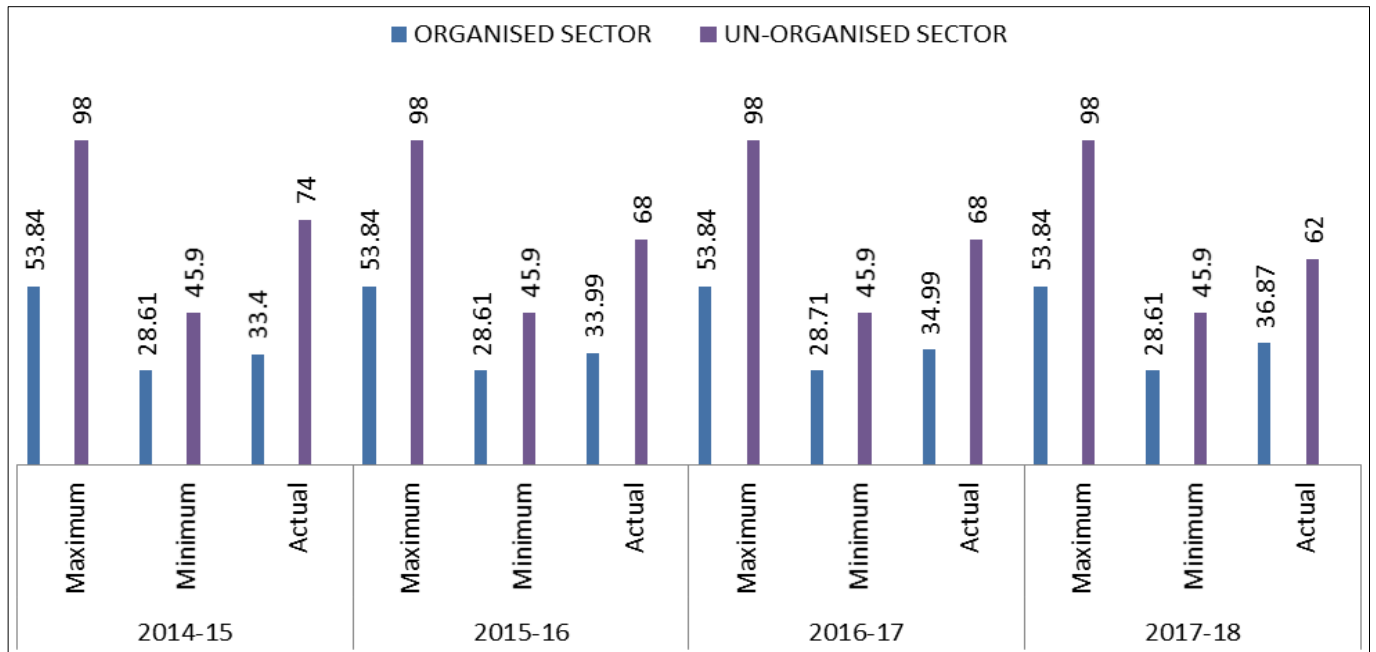


Chart 2: Comparison of Sum of Maximum, Minimum and Actual Rate of Interest charges four years by organised and unorganised sector

Findings

Table-1, Graph-1 and 2 portrays that;

1. The Canara bank interest rates are fluctuating from year to year but in the year 2015 and 2016 the Canara bank charges same rate of interest rate i.e. 11.50 percent.
2. The ICICI bank maximum and minimum interest rates are constant for all the four years i.e.16.50 and 10 percent respectively but actual interest rates are increasing from year to year.
3. The HDFC bank charges an average rate of interest, there was consistency in changes of interest rate.
4. The Muthoot finance maximum interest rate i.e. 24 percent and minimum interest rate i.e. 12 percent are constant and also the actual interest rates 12 percent are constant for all the years. The Muthoot finance charges 1 percent of interest rate per month.
5. The Manappuram gold loans interest rates are constant from past four years i.e. 14 percent.
6. The pawn broker maximum 48 percent and minimum 24 percent interest rates are constant. The pawn broker's actual interest rate is high compare to other sectors. Currently they are charging 3 percent per month.
7. Compare to Canara bank, HDFC bank and ICICI bank, ICICI bank charges high rate of interest that is 13.50 percent per annum.
8. The Canara bank and HDFC bank following almost similar rate of interest and there is a fraction of changes in interest rate from year to year.
9. In unorganized sectors Muthoot and Manappuram gold loan maintain constant interest rates for all the years. Whereas pawn brokers interest rates are decreasing from year to year and they charges higher rate of interest compare to Muthoot and Manappuram gold loan.
10. Compare to unorganized sectors the organized sectors charging low rate of interest rates.
11. The organized sectors maintaining similar rate of interest but unorganized sectors interest rates are not similar and they differ from one another.

Conclusion

For borrowers, gold loans have emerged as one of the best means of raising quick, short term capital. For lenders gold loans are more advantageous compared with home and car loans because of the shorter tenures, lower processing time and cost and greater returns due to higher interest rates. These factors along with appreciation in value of gold, have led to an explosion in the gold loan market with everyone wanting a piece of this action, the organized sector is challenging the large unorganized gold loan market dominated by pawnbrokers and moneylenders with NBFCs leading the pack due to simpler approval and disbursal processes, flexible products and better accessibility. The organized sectors provide an average rate of interest which will be benefit to the common people. They charge low rate of interest compare to unorganized sectors. Hence the domination of pawn broker's gold loan interest rate is reducing year by year because other sectors offering low interest rate and easy process of pledging the gold.

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