



SOVEREIGN GOLD BOND – WIDENING THE SCOPE OF DIGITAL FINANCIAL INCLUSION

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Abstract:

Indians have a special attachment with gold. Jewellery made from gold metal has always had a unique value sentiment being an important part of many cultures and traditional rituals. Giving gold jewellery in marriage ceremonies to the bride has always remained as a status symbol. That might be the reason India along with China is on the top list in terms of Gold jewellery purchase.

Even gold is looked upon as a safe investment option. As per the estimates nearly 25000 tonnes of gold is with the Indian households. This yellow metal lying idle is approximately 110 lakh crores of INR. Due to shortage of gold supply the demand is satisfied by import of gold. Import cost puts the burden on country's balance of payment resulting in Current Account Deficit.

To bring this idle lying metal in to productive use various schemes were started by Government of India. The year 2015 witnessed the origin of SGB scheme by Government of India. This scheme was launched under the Gold Monetisation Scheme.

The present study tried to find out whether the scheme is actually serving its purpose. The primary data revealed that preference is given to physical gold over SGB and the probable reason that came out from the study was low awareness about the SGB.

Keywords: - Gold Monetisation Scheme, Sovereign Gold Bonds, Yellow metal, Investment, Paper gold, DEMAT



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I. Introduction

As per the World Gold Council the entire years prediction is uncertain due to the COVID -19 waves , vaccination going on , economic and political issues on its forefront but still in the first quarter of 2021 the Gold's net bullion import was 301 tonnes as compared with 83.1tonnes in 2020 first quarter. Demand for Gold bars & coins grew up by 34% y-o-y to 37.5% tonnes ever since 2015.

SGB

The year 2015 witnessed an alternative to physical gold in the form of Sovereign Gold Bonds (SGB) introduced by RBI under the Government of India's Gold Monetisation scheme. All resident Individuals, HUFs, trusts, universities and charitable institutions are eligible to purchase SGB. In case of change in the residential status after acquisition the bonds can be still held upto the redemption or maturity whichever is earlier.

II. Literature Review




- 1) Nawaz, Nishad and V. R., Sudindra The study in 2013 focussed on different gold options for investment and the merits and demerits of various gold investment options. Result showed many investors invest in Gold jewellery and coins. It suggested for buying from known jewellers with low making cost. Conclusion was gold bullions and coins have service tax making it costly.
- 2) Adhana, D. K. Three Government schemes were studied and the study came out with the suggestion for developing Gold market by monetising household gold.
- 3) Arora, R. (2016) Based on secondary data the study found out that response for tranche in July 16 & September 16 was substantially more as compared to previous issues.
- 4) Rathore, D.H. (2017) The aim of the study was to know factors which influenced on purchasing physical gold and SGB. It came out with the conclusion that awareness was very low about SGB though few from educated background were in favour of SGB.
- 5) Misha Sharma, Shambhavi Srivastava and Govind Singh (2017) The focus of the study was to find out how gold was used to satisfy the financial needs. Findings were from the three schemes viz Gold loan, Gold investments and Savings the preference was for Gold loans from formal as well as informal sources. The study was conducted in four different cities concluded that respondents were not much

aware about SGD.

III. Research Gap

Previous studies shows that most of the research was based on secondary data, and the primary data was explored at higher levels. Focus was on studying factors that induced people to purchase gold and about the loans that can be obtained against gold. Gold which has always occupied a special value in the Indian minds can be made as a tool to enhance the financial inclusion. But for this the form in which gold is held need to undergo change. To channelise the money blocked in the physical gold Sovereign gold bond scheme was started. Has the scheme reached the target population should be known. The present study was taken up to know about the awareness of the sovereign bonds scheme among the semi urban area, which can be then extended to rural areas. Only if the people know about the SGB and the benefits that can be gained , their will be a shift from physical gold to this paper gold, thereby helping in financial inclusion.

IV. Objectives

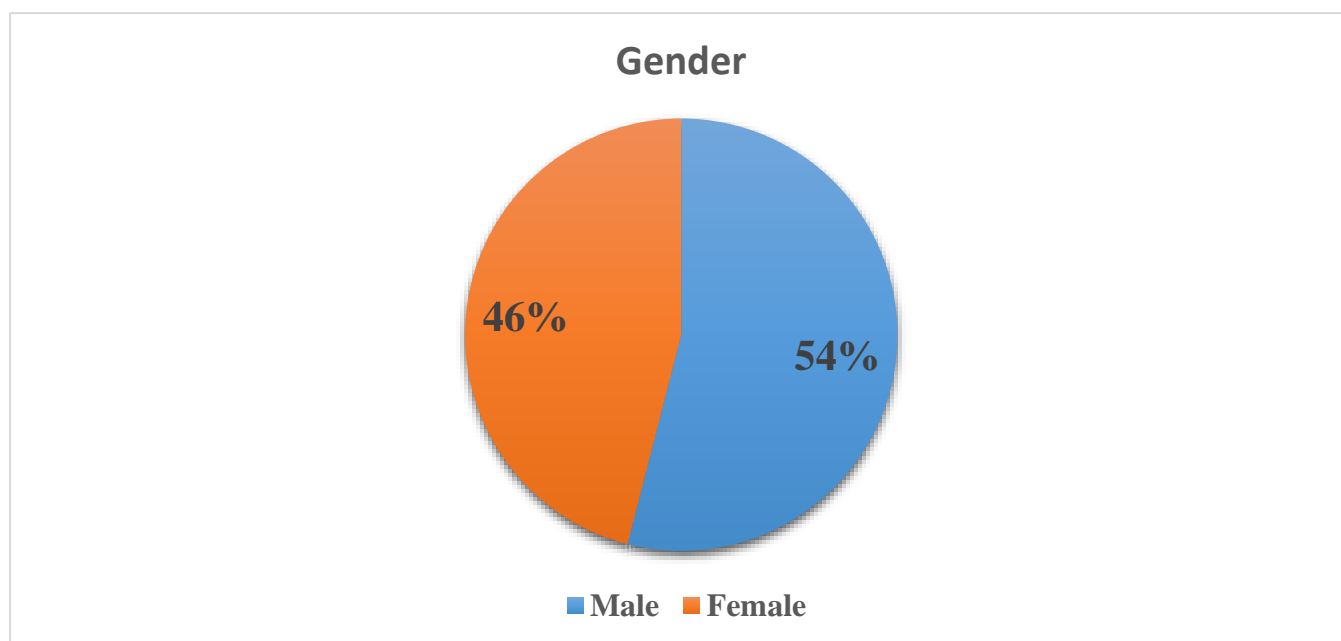
-  To understand the Sovereign Gold Bond Scheme
-  To analyses its benefits over the physical gold
-  To know about the awareness level among the investors about the SGB

V. Research Methodology

The study is based on Primary and secondary sources of data collection. Primary data was collected through a structured questionnaire in google forms from around 150 respondents.. For secondary data various journals, articles, research papers, news papers, RBI website was explored.

Key elements of SGB

- SGB comes with sovereign guarantee from RBI though it is subject to market price of the gold.
- SGB issued by RBI, on behalf of Central Government, could be purchased from Stock Exchange, Designated Post Offices, Banks (excluding payment banks and small finance banks) as well as from Stock Holding Corporation of India Limited.
- PAN is compulsory for investing in SGB
- It can be purchased in the form of physical certificate or in DEMAT form.
- To boost online banking a special discount of fifty rupees per gram (unit) is given by RBI.



- An investor needs to purchase atleast 1unit (1 gram) and maximum limit is Four Kilograms per individual & HUF, and the limit for other entities and trusts is Twenty kilograms.
- SGB enables an investor to earn an income in the form of annual interest @2.5% which is paid half yearly.
- SGB can be redeemed without capital gain tax after eight years. If redeemed before eight years there is long term capital gain tax but indexation benefit is available.
- SGB in DEMAT form can be traded on stock exchanges.
- It comes with zero storage cost.
- Free from risk of theft.
- Loan can be availed against security of these bonds.
- There is no reduction in quantity in case of SGB whereas, physical gold is subject to some amount of deduction at the time of resale.

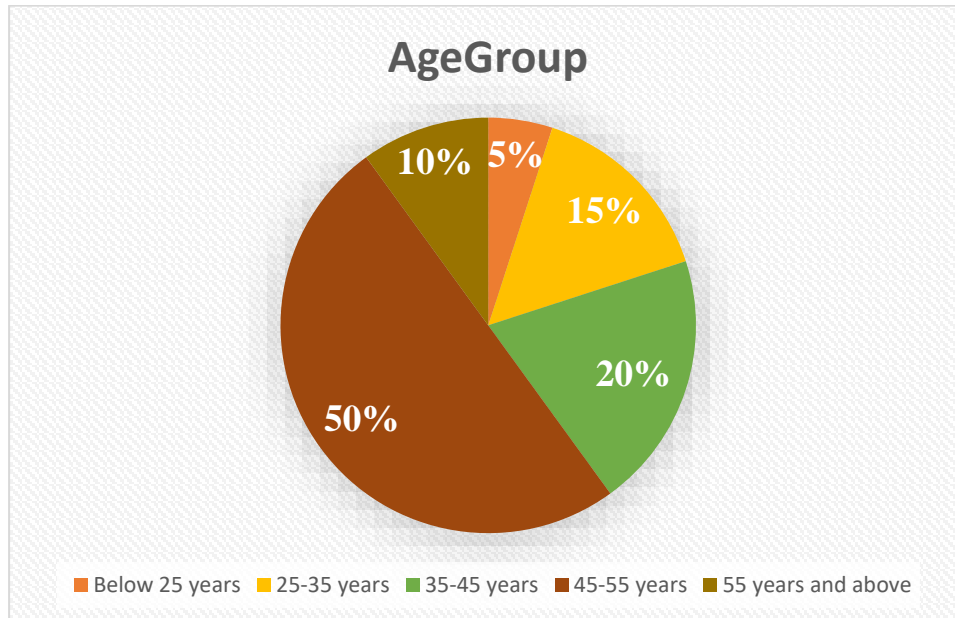
SGB have an edge over physical gold

In terms of returns SGB's gives double benefit, as it gives appreciation in long term and annual interest in short term. As it is available in electronic form, through Government, purity is undoubted as against physical gold that is bought from local jewellers. The amount realised by selling of physical gold is always lower as compared to SGB's. It is risky and costly to maintain physical gold as there is always threat of loss due to theft and for it's storage may people opt for locker facility in the bank for which they have to pay annual rent. Even the locker is not 100 percent safe.

Though in terms of liquidity Physical gold is more liquid.

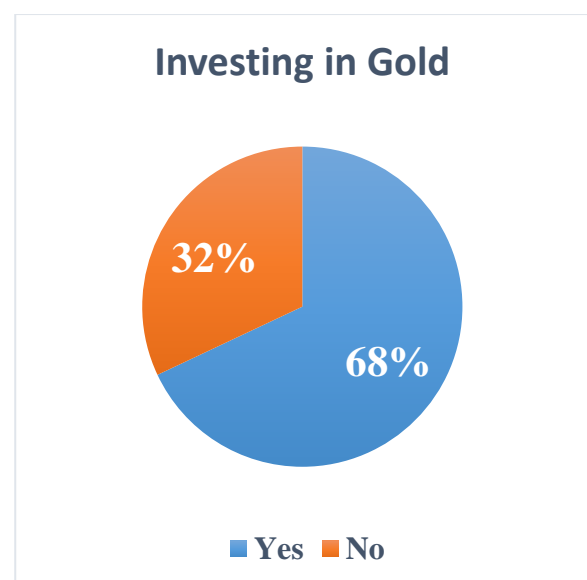
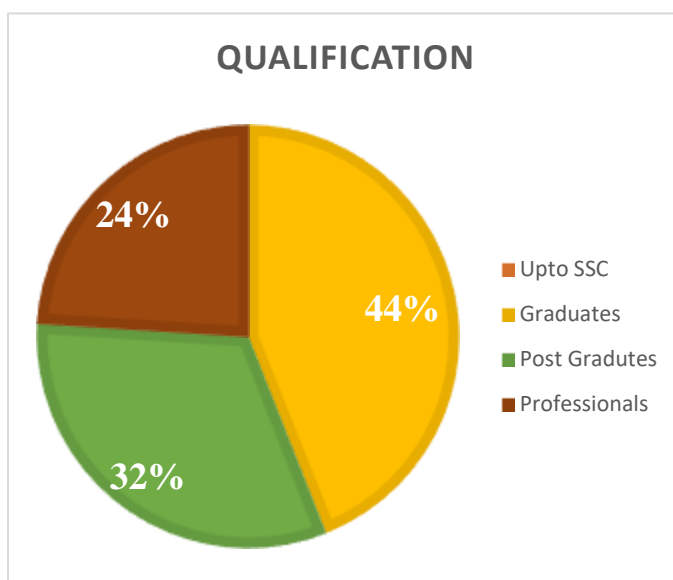
VI. Data Analysis and Interpretation

Demographic profile :



Out of the total 150 respondents, 46% (69) were female and 54% (81) were male.

Nearly 50% of the respondents were in the age group 45-55 years, 20% belong to 35-45 years, 15% in the age group of 25-35 years, 10% were above 55 years and only 5 % were below 25 years.

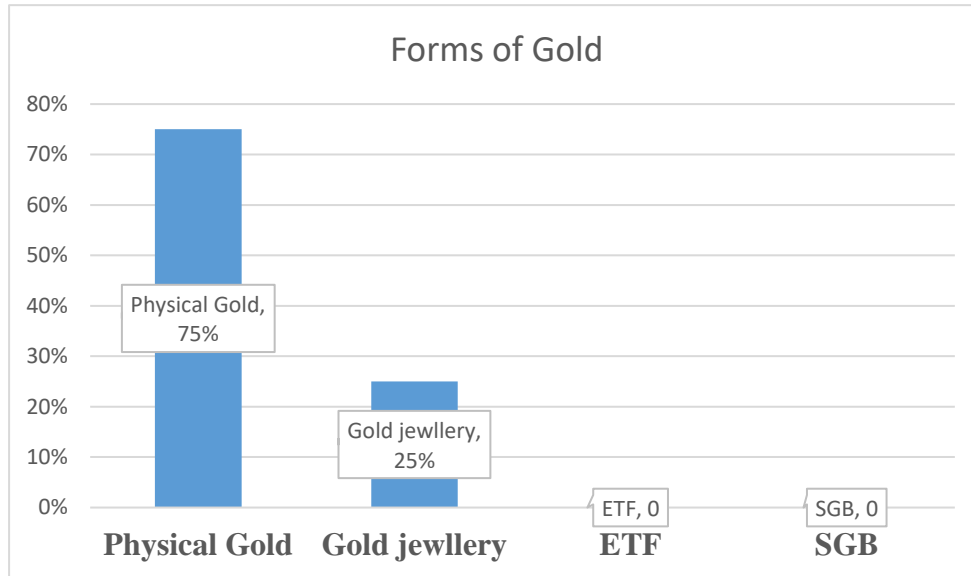


44% of respondents were Graduates, 32% were Post graduates and 24% were professionals.

Out of the total respondents 68% were investing in gold while 32% said they do not put any money in gold.

Those investing in gold, made their investment mostly in physical gold and Gold jewellery.

None of the respondents made investment in SGBs. Which is indicated from the following

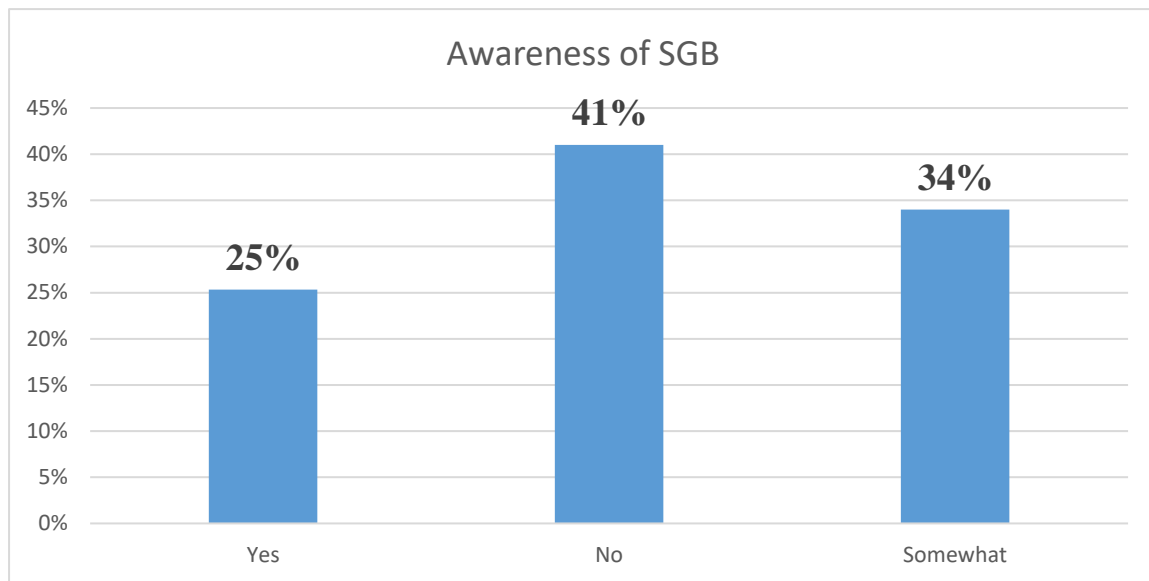


The study revealed that respondents who invested in gold had different purposes behind it.

Reasons for Gold investment	Responses
Children education	13
Children marriage	15
For appreciation/returns	26
For diversifying investment	23
Having special liking for gold ornaments	18
Excess funds to put	4
Don't know	6

Though nearly 68% of the total respondents were putting their money in gold for various reasons, none of them had any investment in SGB.

The reason that came up in the study was their low awareness level about SGB.



The above graph indicates that nearly 25% of respondents answered they are aware of SGB while 41% had no idea what is SGB and 34% of respondents had very little Knowledge of SGB.

The awareness was further assed and the results obtained were as under.

For the question whether all forms of gold have same benefits and risks 48% answered yes while 36% answered may be and 16% said No.

Findings:

Maximum respondents showed that the liking for physical gold is still prevalent. Lack of awareness of benefits of Sovereign Gold bonds over physical gold is the main reason for not opting for Sovereign gold bonds.

Conclusion

Sovereign Gold Bonds definitely are more beneficial as compared to physical gold. GST on physical gold makes it costlier which is not so in case of SGB's as there is no GST. Investing in SGB can help in diversification of the portfolio and also help meeting inflationary pressures. Inspite of its plus points it is still not popular among the investors. They prefer to invest in physical gold and jewellery. This is mainly because less or no awareness about the different options of buying gold.

There is a need to popularise the Sovereign Gold Bond scheme with all its advantages to serve the purpose of making gold a productive asset. If the people are educated about the advantages that they can derive from investing in SGB's then the huge amount blocked in the physical gold can be brought to the economy. Though gold is bought as investment but it is sold only in case of emergencies and not merely to earn profit when price rises.

This is due to the sentiments attached with the yellow metal. But if it is in the form of paper or DEMAT form it can be encashed for making profit, as there will be less emotions involved in it, which will help in reducing the requirement of importing gold by our country at least to some minimum extent. It can be an effective means of achieving financial inclusion. To avail ₹50 discount per gram and easy and quick procedure by banks, people will go for online mode of purchase. This will in turn give boost to digital financial inclusion.

Recommendations

- Policy changes to allow investors to invest in Sovereign Gold Bonds for less than 1 gram, particularly for lower income groups.
- Educating the investor about SGB benefits
- Reduction in number of years for redemption.
- Giving the option of availing interest on maturity tax free.

Scope for further study

The study can be carried out in rural areas to know whether the rural population, particularly the farmer who is having seasonal earnings and investing in physical gold for meeting his future needs of finance is aware about the other forms of investing in gold like SGB's and spreading awareness about this beneficial form of gold.

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