

Sovereign Gold Bond Scheme – An Alternative to Physical Gold Investment in Kerala

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ABSTRACT

India has a deep historical connection with gold. It is the biggest consumer of gold, next to China. But the production of gold is far behind of the demand and hence the shortfall is met by imports, leading to drastic devaluation of Indian rupee and depletion of foreign exchange reserves to alarming levels. Kerala is the leading gold purchasing state in south India. Though the Govt. of India introduced SGBS to regulate the gold market; its impact in Kerala appears to be insignificant. The paper examines mainly the awareness and the level of investment under the scheme.

Keywords: Gold, Physical gold, Paper gold, Sovereign gold bond scheme, awareness.

INTRODUCTION:

India is the biggest consumer of gold, next to China. But India produces only a little gold compared to its demand and hence the shortfall is met by imports leading to drastic devaluation of Indian rupee and depletion of foreign exchange reserves to alarming levels. Of the total demand for gold in India, 45 per cent comes from southern states and Kerala is the leading gold purchasing state among them. Gold is deeply entwined into the cultural and historical roots of Kerala and forms an integral part of almost every Malayalees' life. Traditional loyalty to gold and the lack of other convenient investment avenues in the state has made gold as a leading investment option. Diversion of investment from the physical form of gold to the non-physical form is the need of the hour and to attain the said objective, Govt. of India introduced various measures. Sovereign Gold Bond Scheme (SGBS) is one among them.

STATEMENT OF THE PROBLEM:

Though the Govt. of India introduced SGBS as a measure for curbing the gold imports, the investment under the scheme proves to be very low all over India, especially in Kerala due to its low awareness among the investors and also their sentimental attachment towards holding gold in physical form, particularly as ornaments. The SGBS as an option for investment in gold was not found to be successful as envisaged, a study is inevitable.

OBJECTIVES:

1. To study the nature of investment in gold.
2. To identify the major reasons for non-investment in non-conventional forms of gold.
3. To study the awareness of SGBS.
4. To examine the level of investment in SGBS.
5. To give suggestions.

HYPOTHESIS:

Ho. There is no area wise difference in the awareness of SGBS

Hi. There is area wise difference in the awareness of SGBS

Ho. There is no close association between the awareness of SGBS and nature of employment.

HI There is close association between the awareness of SGBS and nature of employment.

Ho. There is no difference in the awareness of SGBS among the respondents based on their educational qualification.

H1. There is difference in the awareness of SGBS among the respondents based on their educational qualification.

REVIEW OF LITERATURE:

Nishad Nawaz and Sudindra (2013) in their study provide an understanding of the various investment options for investors, factors need to be aware of and know-how of investing in gold, pros and cons of various forms of investment and also assist investors in creating awareness about various gold investment options. Based on the study, it is found that jewellery is the most preferred form of investing in gold (36 per cent) followed by gold coins (18 per cent), gold bullion bars (14 per cent), ETF (10 per cent), Gold mutual fund (8 per cent), E-Gold (3 per cent) and Gold certificates, and futures and options (2 per cent each). Convenience is identified as the most attractive factor for investment in jewellery and the primary constraint in investing in jewellery is considered to be making charges.

In a study M. Jayanthi, T. Poongothai and R. Preeti (2014) pointed out that among the various gold investment avenues majority of the investors have given a top priority to gold jewellery followed by gold coin, gold ETFs, gold on accounts, e-gold and gold certificates. They identified liquidity, transparency in pricing, affordability, convenience and safety as the advantages of paper gold over physical gold. The study revealed that for traditional and prestigious value the investors prefer physical gold rather than paper gold though the former has many problems.

Priti Aggarwal (2014) in his study emphasised the need for monetisation of the idle gold stock for productive objectives. As the Indian consumers are not yet ready to leave physical gold, due to their sentimental values attached, he recommended for the creation of awareness about gold-backed investment products.

Sheetal Dubey and Anamika Hardia (2014) in their paper stated that gold tends to perform positively in times of economic uncertainties as well as in acute crisis, particularly in scenarios of deflation and scenarios with higher than usual inflation rates.

George Varghese (2015) in a study on the investment behaviour of Keralites with special reference to salaried class of people concluded that though there are many investment opportunities, people are concentrating more on the major long term investments like fixed deposits, gold, life insurance, post office savings, real estate, provident funds and short-term alternatives like the chit funds, private financial firms etc.

CA Rashmi Chaudhary and Priti Bakshi (2016) made a comparative study of Gold Monetisation Scheme and Sovereign Gold Bond Scheme and concluded that latter is gaining more acceptance in India due to social factors associated with it.

Jalpa Thakkar, Sheenam Gogia and Vatsala Manjunathan (2017) have examined the available gold investment avenues and also the awareness and attitude of the investors towards the alternative methods of gold investments. The study found out the physical gold as the most preferable avenue followed by gold coins/ bars, Gold ETF and E-gold. The study further highlighted the lack of awareness about the new trends in gold investment alternatives viz. Gold ETF, E-Gold and gold funds among the investors.

RESEARCH METHODOLOGY:

The study is basically explorative in nature and mainly based on primary data collected by conducting a sample survey among the Govt. employees in Thiruvananthapuram district in Kerala by administering a structured questionnaire. Convenience method was adopted to collect the data from a sample of 300 respondents. An in-depth review and analysis of secondary information available in the published journals, magazines, reports of Govt. agencies etc. was made.

Tools of analysis:

The primary data collected were edited, classified, tabulated and analysed with the help of statistical package for social sciences (SPSS). Mathematical and statistical tools like percentages, mean, median, quartiles, standard deviation and Chi-square test are applied for arriving meaningful conclusions.

LIMITATIONS OF THE STUDY:

1. The non- availability of the complete list of government employees delayed the data collection process to some extent.
2. The suspicious approach of the respondents in providing the required information in several cases made the data collection difficult.

However, a systematic and sincere effort is made to collect and present data in a scientific and logic manner, keeping in view the objectives of the study.

DATA ANALYSIS AND INTERPRETATION:

Table 1: Percentage distribution of the sample according to background characteristics

Background characteristics		Count	Percent
Place of residence	Rural	202	67.3
	Urban	98	32.7
Educational qualification	Up to Graduation	191	63.7
	PG/ Professional	109	36.3
Nature of employment	Central Govt.	71	23.7
	State Govt.	167	55.7
	Quasi- Govt.	62	20.6
No of daughters	Nil	86	28.7
	One	143	47.7
	Two or more	71	23.6
Religion	Hindu	190	63.3
	Muslim	22	7.3
	Christian	88	29.4
Monthly family Income	<=50,000	35	11.7
	50,000 - 1,00,000	117	39
	1,00,000 - 1,50,000	91	30.3
	>1,50,000	57	19
Present total investment in Lakhs	<25	45	15
	25 - 50	145	48.3
	>50	110	36.7

Source: Primary Data

As regards the place of residence, it can be seen that nearly 1/3rd of the respondents belong to urban area and the rest to rural area. Regarding educational qualification of the respondents it was found that as high as 63.7 per cent have qualification up to graduation and remaining 36.3 per cent have PG/ professional qualification. Among the respondents, 55.7 per cent was found to be employed in the State government sector as against 23.7 per cent in the Central government sector. The remaining 20.6 per cent belongs to the quasi-government sector. As per the table, 47.7 per cent of the respondents have one daughter each in their family and 23.6 per cent have two or more daughters. Those without any daughter constitute 28.7 per cent of the respondents. The table suggests that the prominent group of the respondents is Hindus (63.3 per cent) followed by Christians (29.4 per cent) and Muslims (7.3 per cent). Income wise analysis shows that majority (39 per cent) of the respondents have a monthly family income between Rs.50,000 and 100,000. Those with the least monthly income of less than Rs.50,000 constitute 11.7 per cent of the respondents, while 30.3 per cent and 19 per cent of the respondents fall in the income group of Rs.100,000- 150,000 and more than Rs. 150,000 respectively. Regarding the present total investment of the respondents, it was found that 48.3 per cent have an investment between Rs. 25 lakhs and 50 lakhs followed by 36.7 per cent with an investment of more than Rs. 50 lakhs and 15 per cent with an investment of less than Rs. 25 lakhs.

Table 2: Percentage distribution of the sample according to type of investment in gold

Type of investment in gold	Count	Percent
Physical Gold	272	90.7
Physical and Paper Gold	28	9.3

Source: Primary Data

The table conveys that an overwhelming majority of 90.7 per cent respondents have investments in physical gold only. Those with paper gold as well as physical gold account for 9.3 per cent and none is found to be exclusively in possession of paper gold. The analysis made clear that paper gold is not popular among the respondents.

Table 3: Reasons for Non- investment in non-conventional forms of gold

Reason for Non- investment in non-conventional forms of gold	Count	Percent
Lack of adequate awareness	155	57
No physical existence	75	27.6
Cost involved	11	4
No personal control	12	4.4
Formalities involved	34	12.5
Lack of trust	53	19.5
Difficulty in maintaining secrecy	19	7
Not Popular	53	19.5
Lack of fund	18	6.6
Unprofitable	18	6.6

Source: Primary Data

From the above table it could be noticed that the dominant group (57.4 per cent) has lack of adequate awareness as a reason for non-investment in non- conventional forms of gold. The absence of physical existence was identified as the second leading reason, while the cost of transactions was found to be the least significant reason.

Awareness about Sovereign Gold Bond Scheme (SGBS):

SGBs are securities issued by Reserve Bank of India on behalf of the Central Government denominated in grams of gold, aimed at bringing down gold imports and providing an alternative to physical gold. Investors have to pay the issue price in cash and the bonds bear interest at the rate of 2.5 per cent per annum on the amount of initial investment. The minimum investment will be one gram with a maximum buying limit of 4kg per person per fiscal year. The period of investment is for eight years with an exit option from the fifth year onwards. The bond will be redeemed in cash on maturity. Investors are assured of the market value of gold at the time of redemption of the bonds. In spite of the extra benefits attached to the bonds, the scheme failed to achieve the envisaged results. This was mainly due to the lack of awareness about the scheme among the public including Government servants. Hence the data relating to the awareness of the scheme was collected and presented in the following table.

Table 4: Percentage distribution of the sample according to awareness about Sovereign Gold Bond Scheme

Awareness about Sovereign Gold Bond Scheme	Count	Percent
Yes	74	24.7
No	226	75.3

Source: Primary Data

The table shows that nearly one-fourth of the respondents lack awareness about Sovereign Gold Bond Scheme while the rest, three-fourth, do have awareness. The analysis highlights the need for imparting effective awareness to the general public about SGBS.

Table 5: Awareness about Sovereign Gold Bond Scheme with selected variables

		Awareness about Sovereign Gold Bond Scheme				χ^2	p
		Yes		No			
		Count	Percent	Count	Percent		
Place of residence	Rural	43	21.3	159	78.7	3.80	0.051
	Urban	31	31.6	67	68.4		
Educational qualification	Upto Graduation	56	29.3	135	70.7	6.12*	0.013
	PG/Professional	18	16.5	91	83.5		
Nature of employment	Central Govt.	28	39.4	43	60.6	13.38**	0.001
	State Govt.	29	17.4	138	82.6		
	Quasi- Govt.	17	27.4	45	72.6		
No of daughters	Nil	17	19.8	69	80.2	1.97	0.373
	One	40	28	103	72		
	Two or more	17	24	54	76		
Religion	Hindu	52	27.4	138	72.6	2.15	0.342
	Muslim	5	22.7	17	77.3		
	Christian	17	19.3	71	80.7		
Monthly family Income	<=50,000	11	31.4	24	68.6	16.78**	0.001
	50,000 - 1,00,000	22	18.8	95	81.2		
	100000 - 1,50,000	16	17.6	75	82.4		
	>1,50,000	25	43.9	32	56.1		
Present total investment in Lakhs	<25	11	24.4	34	75.6	12.03**	0.002
	25 - 50	24	16.6	121	83.4		
	>50	39	35.5	71	64.5		

Source: Primary Data **: - Significant at 0.01 level, *: - Significant at 0.05 level

As per the analysis 31.6 per cent of the urban respondents and 21.28 per cent of the rural respondents stated the awareness of SGBS as positive. As between respondents with qualification up to graduation and others with PG/professional qualification significant difference was noticed. Of the former category 29.3 per cent and latter category 16.5 per cent reported positively about the awareness. Among the respondents in the different categories, 39.4 per cent of the central government employees, 27.4 per cent of the quasi-government employees and 17.4 per cent of the state government employees stated the awareness as positive. The awareness is found to be relatively less among the respondents without daughter. Of them 80.2 per cent reported negatively as against 72 per cent of the respondents with one daughter and 76 per cent of the respondents with two or more daughters. Religion wise analysis indicates that 27.4 per cent, 22.7 per cent and 19.3 per cent respectively of the Hindus, Christians and Muslims were found to have awareness about the scheme. The study observed wide variation among different categories of respondents based on monthly family income as well as present total investment in regard to the awareness of SGBS.

Table 6: Element wise awareness about Sovereign Gold Bond Scheme

Specific awareness about parameters of Sovereign Gold Bond Scheme	Count	Percent
Minimum investment	74	100.0
Current interest rate	57	77
Collateral against loan	57	77
Tax benefit	42	56.8
Tenor of bond	52	70.3
Lock-in period	55	74.3
Linkage of gold bond prices	32	43.2
Redemption	41	55.4
Issuing agency	70	94.6
Mode of payment of interest	42	56.8
Maximum investment	43	58.1
Nature of guarantee	58	78.4

Source: Primary Data

The analysis revealed that all respondents have the awareness about the minimum investment to be made under the Sovereign gold bond scheme. As regards the awareness of the issuing agency, 94.6 per cent opined favourably. The awareness of nature of guarantee, collateral against loan, current interest rate and lock in period showed somewhat an identical picture. Of the respondents who have awareness 78.4 per cent, 77 per cent, 77 per cent and 74.3 per cent respectively have reported their awareness as positive. The awareness of linkage of gold bond prices seems to be the least. It may be concluded that the level of awareness is not uniform among those who reported the awareness of the scheme as positive.

Table 7: Distribution of the respondents according to investment in SGB

Investment in SGB	Count	Percent
Yes	18	24.3
No	56	75.7

Source: Primary Data

As per the table hardly about one-fourth of the respondents with awareness of SGBS have investment in the scheme. It implies that even among the respondents with awareness of the scheme, majority are not interested to make investment.

Table 8: Descriptive statistics regarding amount of investment in SGB

Mean	36111.1
SD	25256.1
Median	30000.0
Q1	17250.0
Q3	45750.0
Minimum	4000.0
Maximum	100000.0
Count	18.0

Source: Primary Data

The table conveys that 18 out of 300 respondents alone have investment in SGBS. The minimum and maximum investments made under the scheme were found to be Rs.4000 and Rs.100,000 respectively. Among the respondents covered under the scheme 50 per cent have an investment of Rs.30,000 or less, while those with Rs.45750 or more constitute 25 per cent.

TESTING OF HYPOTHESIS:

Hypothesis 1:

Ho. There is no area wise difference in the awareness of SGBS.

Hi. There is area wise difference in the awareness of SGBS.

The analysis makes clear that there is no close association between place of residence and awareness about SGBS as the significant value (p-value) is more than 0.05 (@ 5 % level of significance). Hence the null hypothesis that there is no area wise difference in the awareness of SGBS is accepted.

Hypothesis 2:

Ho. There is no close association between the awareness of SGBS and nature of employment.

HI There is close association between the awareness of SGBS and nature of employment.

The analysis revealed noticeable difference among different categories of respondents, based on their nature of employment, with regard to the awareness of SGBS. Chi-square test proved this difference as significant at one per cent level. Hence the null hypothesis that there is no close relationship between the awareness of SGBS and nature of employment is rejected. It indicates that nature of employment and awareness of SGBS are closely related.

Hypothesis 3:

Ho. There is no difference in the awareness of SGBS among the respondents based on their educational qualification.

H1. There is difference in the awareness of SGBS among the respondents based on their educational qualification

As per the analysis it is found that there is significant difference in the awareness about SGBS among the different groups, based on their education. The difference is found to be significant at 5% level. It conveys that educational qualification and awareness are closely related. Hence the null hypothesis is rejected.

FINDINGS:

1. Majority (90.7 per cent) of the respondents have investments in physical gold only while none has investment exclusively in paper gold.
2. An overwhelming majority of 75.3 per cent of the respondents lack awareness about Sovereign Gold Bond Scheme.
3. As between the rural and urban respondents, the awareness about the scheme is relatively high among the latter group.
4. The awareness is found to be high among respondents with PG/ professional qualification when compared to respondents with qualification up to graduation.
5. Among the different categories 39.4 per cent of the central government, 27.4 per cent of the quasi-government and 17.4 per cent of the state government employees have awareness about the scheme.
6. The respondents without daughter have the least awareness about the scheme.
7. The Hindus stood first in regard to the awareness about SGBS followed by Muslims and Christians.
8. There exist significant difference with regard to the awareness of the scheme and the monthly income and present total investment of the respondents.
9. Of the respondents who have awareness about the scheme 94.6 per cent alone have awareness about the issuing agency, 78.4 per cent about the nature of guarantee, 77 per cent each about collateral against loan and current interest rate and 75.3 per cent about lock-in-period. However all of them have awareness about the minimum investment under the scheme.
10. Majority of the respondents are not interested to invest in SGBS. More than 75 per cent of the respondents with awareness about SGBS are found to be non- investors.
11. Among the respondents with investment in SGBS, 25 per cent have an investment of Rs. 45,750/- and above and another 25 per cent have an investment equal to or less than Rs. 17250/-.

CONCLUSION:

SGBS is a preferred option for investment in gold. However Keralites still prefer buying gold in the physical form such as jewellery, bars and coins. Though the Govt. of India introduced the scheme with the intention of curbing the gold imports, the investment under the scheme proves to be very low all over India, especially in Kerala due to its low awareness among the investors. Hence the scheme shall be made popular through increased public awareness and effective marketing strategies like noticeable tax benefits to the participants of the scheme should be made for attracting the investors.

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