

Gold Monetization; Some Roadblocks Ahead

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As I saw your presentation today you spoke about basically the habit behind buying gold in India and why Indians do not want to part with their gold and there is lot to be needed to motivate these people to deposit their gold in gold monetization scheme. Am I right?

When we start a scheme like the gold monetization scheme there are two sides to that scheme. One side is that of refiners, the banks, the CPTCs that has to have a system in place where people can go and deposit their gold and be assured of the quality that they are depositing and be sure that their gold doesn't get stolen. The other part of the equation is that people need to be

comfortable with giving out their gold because in our country people are very emotionally attached to gold for a variety of reasons; it's a social security, it is the hedge against inflation, it's a saving because we don't have organized system of savings in the rural areas. So in a very real sense, for large number of people, gold has become a part of their DNA. It is a very deep-seated habit and habits are very emotional in nature.

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behavior of people so that they are more willing to take out their gold, lying in the mattresses or lockers and deposit it with the banks so that it gets monetized. If we are talking about 300 to 500 tons of gold getting out of lockers every year, it means that that amount of money is more available to the economy.

Some part of it does come out as gold loans but that's a very small proportion. Companies like Mannapuram or Muthoot together have around 300 tons but every year 500 tons of gold are being sold in form of jewelry. So, one can imagine the amount of gold that is stored every year which is a dead asset having little economic utility. So we do need to change this habit of consumers. From neuroscience studies of the brain we are beginning to understand what drives the emotions of people, which parts of their brains are becoming hyperactive, or overactive when we talk about those things to which they are deeply and emotionally attached.

We can bring that knowledge to some use, which allows us to design interventions. Let's take an example. There was a large number of fatalities observed in Wadala Railway Crossing in South Mumbai, because people were

no longer afraid of crossing the railway tracks as it had become a daily habit. So one element of the intervention was how to raise that fear unconsciously without them being aware of it. So the authority put in place a series of fearful faces which are showing an increased level of fear as you're approaching the crossing and automatically the unconscious fear of the person gets elevated and once the unconscious fear gets elevated person tends to be more careful automatically.

At the same time, what we have found is that the human brain is designed to be able to judge the speed of small objects, but it cannot judge the high speed accurately. So, if there is a large train coming at a high speed, the brain misjudges the speed. That's why the authority put in place large yellow painting markers at intervals of 20 meters. So now when the person is crossing the tracks his fear is already elevated because he has seen those fearful faces, and when he sees the train crossing between two of those markers he suddenly realizes that the train is moving more quickly than he has estimated earlier. So combination of more accurate judgment and elevated fear reduces the fatalities in this case from 40 a year to 5 a year. What I mean to say here is that it is possible for us to design similar intervention schemes

for people who are holding gold that automatically induces them to seriously consider parting with and putting it into a deposit scheme. Of course the incentives will have to be attractive. However, gold is such an emotional thing that even if I give him five or seven percent interest, there is still possibility that the person may not part with it. This is where the proper interventions come into play.

To do that, first we need to generate some research-based insights. India gold Policy Center is currently engaged in it. We are planning to roll out a nationwide survey with targeted sample size of 1,100 to 1,200 respondents who have bought gold in the recent past and we will analyze their behaviors and then based on that we will have some preliminary insights. And hopefully based on those preliminary insights we are able to then suggest the government or maybe to some other bodies that if you take certain actions the chances of an increased amount of gold coming into the system for monetization scheme will become more. It is very important because if you look at the gold holding pattern in the country, temple trusts and investors are holding actually very small quantity; seventy to eighty percent is held by individuals and it's just lying idle. Some of it does

Right now what is happening is that we do not have a process within the country for price discovery. Now one of the ironies of life is that we are the largest consumers of gold in the world but we are price takers. If we are the largest consumer of the world, then we should be having a mechanism for deciding the price also. So the exchange becomes an avenue, a process, a system and infrastructure which helps us to come to a reasonably accurate decision on what the price of gold should be. Additionally, it will also increase the liquidity of that process - people don't have to take out there gold to other places to discover the price and so on.

come back into the system, but we want a much larger proportion. So, a campaign like this is an absolute necessity.

If a poor man has hundred grams of gold, which is in today's rate is 3 lakhs rupees, and if he deposits this gold under the scheme, he will earn some interest after 10 years but what he will lose actually his security. Is this not the reality?

Exactly right. So therefore one of the key elements of any intervention would have to be to make sure that when the person deposits that gold, that feeling of security does not go away. This is one element which needs to be addressed. But the gold is not only about security but it's also about saving for a house or saving for the children or it is a hedge against crop failure for rural farmers. So the message also would need to be tailored for different sets of people - the message for a farmer is likely to be different from lower middle-class or upper middle class person because for each one of them what gold means emotionally would be somewhat different and the purpose of the research essentially is to try and establish what is for each of these segments of people so that it results in an increase in the deposits. All that we can do is to increase the probability of deposit – in human behavior there is always

an element of uncertainty, but if we have the right interventions we can increase the probability that we are looking for.

You have suggested that India should have its own gold exchange. How does it help the industry?

This was in fact the first white paper that IGPC produced. We concluded that an exchange is going to be good for the Industry because it will provide another outlet and increase the liquidity for gold especially amongst those people who are investors in gold. It is not necessarily for the large retail class, but who are investors and it will improve the price discovery process. Right now what is happening is that we do not have a process within the country for price discovery. Now one of the ironies of life is that we are the largest consumers of gold in the world but we are price takers. If we are the largest consumer of the world, then we should be having a mechanism for deciding the price also. So the exchange becomes an avenue, a process, a system and infrastructure which helps us to come to a reasonably accurate decision on what the price of gold should be. Additionally, it will also increase the liquidity of that process - people don't have to take out there gold to other places to discover the price and so on. So those are some of the

the success or failure of any scheme whether it is the gold exchange or monetization or bond, it depends upon three things - regulatory framework, the industry and the consumer. So in both of these cases the policy-making from the government needs to be a little more granular in nature.

Even if the direction is right, if the policy does not allow for a reasonably large number of contingent factors which can be taken care of by the policy, then what is going to happen is that the policy will start faltering and once it starts faltering then it loses momentum, and once it loses momentum then you know ultimately it is destined for failure.

reasons that gold exchange in India might be worth pursuing. Of course some of the details would need to be ironed out like under what regulatory framework it falls, who will take responsibility for it and in some of that the government needs to step up and figure out what should be the mix between RBI and SEBI and the Ministry of Finance or Department of Financial Services, the Department of Economic Affairs and so on because the success or failure of any scheme whether it is the gold exchange or monetization or bond, it depends upon three things - regulatory framework, the industry and the consumer. So in both of these cases the policy-making from the government needs to be a little more granular in nature.

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might either participate in the Gold Exchange or give out there gold for gold monetary scheme.

How are you enjoying the conference?

It's a wonderful conference and I think the beauty about the conference like this is it helps to get a sense of pulse of how the industry is feeling about gold. It's been a very good learning experience for me. But one thing I would like to make a observation on is that this convention seems to be talking about itself, which is not bad as it helps to figure out what other people in the industry are thinking. But that is not the entirety of the industry – there is customer, the regulator and so from a systemic perspective I think it be even more useful if we actually had representation from the government. By government it is not necessary that a joint secretary or an additional secretary comes every time. Attendance of a section officer, or the undersecretaries would be useful because they also need to get a feel for how is the industry thinking, or behaving. This is one suggestion I have to the organizers.



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