Protecting Small Gold Investments

Why in news?

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- One of the leading Jewelries in Chennai has officially declared a financial crunch and has sought more time to honour its gold schemes.
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- This highlights that small savers need a safer alternative to the unregulated gold savings schemes.
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What is the present scenario?

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- A large part of population in India considers gold as a viable saving option.
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- Instruments such as Gold Exchange Traded Funds (ETFs) or Sovereign Gold Bonds (SGBs) have failed to attracted savers.
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- Gold ETFs require the investor to own a demat account and be familiar with the workings of the stock market.
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- SGBs also has long lock-in of 5-8 years.
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- So these instruments are used mainly by informed investors.
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- Instead, the unregulated Golden Deposit schemes offered by jewellers thrives, especially in the southern states.
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What is the design of the scheme?

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- Every month, the customer deposits a fixed instalment as small as 500 with the jeweller.
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- After a stipulated time, deposits can be swapped for an equivalent value of gold jewellery, or roll it over for another year.
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- There is no interest offered on these deposits.
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- Customers are rather lured by freebies and discounts.
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- These schemes are usually not registered, yet they are widely mistaken as ‘gold deposits’ or ‘gold chits’ with government backing.
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What are the problems with the scheme?

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- The unregulated nature of these schemes allows them to raise remarkable amounts without sticking to any end-use criteria.
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- This makes them highly vulnerable to the fluctuations.
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- Even jewellers with genuine intentions may be forced to default on payments during situations of customer panic.
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- This is direct fallout of the non-maintenance of buffer funds which becomes mandatory in recognised financial instruments.
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- Notably, jewelleries defaulting are also quite frequent which are then struck up in litigations and investigations.
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- These schemes have proliferated mainly because they help in accumulating unaffordable gold through small investments.
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What is the existing regulating framework?

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- Section 45S of the RBI Act expressly bars unincorporated entities from accepting public deposits.

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- Companies accepting such deposits are required to register themselves as NBFCs with the RBI.
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- Post Saradha Scam, SEBI won exceptional powers to regulate Collective Investment Schemes that pool above Rs.100 crore.
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- It has also issued multiple orders against Ponzi schemes promising astronomical returns from various investments.
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- But gold savings schemes are out of the regulatory ambit of Ministry of corporate affairs, SEBI & RBI owing to technicalities.
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How are regulations being circumvented?

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- Either most schemes keeps less than 100 crore or aren’t being reported to SEBI.
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- Companies Act of 2013 tightened regulations and caped deposits at 25% of the company’s networth and incorporated many other restrictions.
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- But only large jewellers have reduced their saving schemes.
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- So unregulated gold savings schemes continue to flourish.
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What can be done?

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- Strictening regulations on jellwer sponsored saving scheme is obviously necessary.
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- Reworking the government’s SGB scheme to make it simpler and allow savers to invest in instalments can be considered.
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Source: Businessline

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