

## **A STUDY OF CONSUMER CREDIT BEHAVIOR IN SRI LANKA GOLD MARKET**

**Yashika Malwatta<sup>1</sup>, Sampath Amaratunge<sup>1</sup> and MPK Withanawasam<sup>1\*</sup>**

<sup>1</sup>Department of Business Economics, University of Sri Jayewardenepura, Sri Lanka

\*Corresponding author: madurangaw@sjp.ac.lk

### **1. INTRODUCTION**

According to the Central Bank statistics 2009 - 2014, it can be noted that there is a gradual increase in the preference of gold loans by the borrowers as a means of consumer credit, during last 5 years period in Sri Lanka. This increase in gold loans implies several economic outcomes that can be anticipated in the future in credit market as well as in gold market in Sri Lanka. Corresponding to the gradual increase in preference of gold loans by the borrowers, the lender starts to raise the loan to value ratio or gold loan advances they grant while reducing the interest rates and encouraging more gold loan borrowings by creating a competition in the credit market. Through this encouragement, people who have various borrowing behaviors come in to the market and if most of the borrowers are in a vulnerable position and if the repayment ability is ambiguous, then loan defaulting rate will enhance in this credit channel. When loans are defaulted, lenders try to cover up their loan values through selling out the collateral. Since the common collateral is gold for these types of loans, when increasing supply of the gold, the price of gold will decline while creating a problem to the gold business as well. Gold price decline will not only be affected to the gold business but also for the financial organizations who keep their reserves in gold. They also are punished by declining the value of their gold investments creating a path for a domestic financial crisis. Therefore, apart from the mere credit supply increase in return to borrowers' preference, lenders must have a good understanding on purpose of borrowing, repayment ability and their borrowing behavior in general to avoid above mentioned type situations. Because if lenders are aware on their borrower, they can adjust their terms and conditions on gold loan and reduce possible losses arise in not repaying. On the other hand, if lenders have a good understanding on borrowing patterns, they can design variety of gold loan products by adjusting tenure, interest rate and loan to value ratio. However, in Sri Lanka, these types of studies are lacking on gold loan market. Thus, through this study, it is expected to examine the characteristics and general borrowing behavior in Sri Lankan gold loan borrowers to render an understanding on their borrowing practices to the lenders by fulfilling that need. In addition to that, it demonstrates the importance of studying the participants and their behaviour in gold loan market to utilize this credit facility effectively in the development of the Sri Lankan economy by identifying the borrowing segments in the gold loan market. Therefore, the results of this research will not only be beneficial for gold loan

lenders and financial institutes but also to the policy makers in deploying effective credit sources to the various segments in the society. Therefore, this study provides a clear view on gold loan borrowers and their behavior as a solution for prevailing knowledge deficiency in Sri Lankan gold market.

## **2. LITERATURE REVIEW**

Churiwal and Shreni (2012) have carried out a study on Indian Gold loan market examining the features of gold loans, loan interest and gold loan values. The findings of that research reflected that 65 percent of the gold loan market is with rural area in India. The study also discovered that, the organized sector is challenging the large unorganized gold loan market dominated by pawnbrokers and moneylenders, with non-bank financial companies leading the pack due to simpler approval and disbursal processes, flexible products and better accessibility. In contrast to the Indian study, a research conducted by Grashof (2002) on People's Bank Pawning and Savings Centers in Sri Lanka discovered that pawning is more common in urban areas and, whereas saving is popular in rural areas in Sri Lanka. It also revealed that women make more use of pawning facilities than men in Sri Lanka. Pawning is not only a product for the poor lately; even business people have started to make use of pawning. Pawning has become the most important credit facility in terms of outreach to the poorer population (Grashof, 2002). The credit purpose is not fixed, providing quick and easy access to liquidity for various needs. Discretion is guaranteed as the transaction takes place in a separate room or behind closed curtains (Grashof, 2002).

## **3. OBJECTIVE OF THE STUDY**

The main objective of the study is to investigate the consumer credit behavior in Sri Lankan Gold Loan Market; the specific objectives are to assess the characteristics of gold loan borrowers and to assess consumer borrowing behavior in gold loan market.

## **4. METHODS**

The target groups of this study are gold loan borrowers. The reason for aiming this sector is that lack of studying the behavior of these gold loan borrowers who have raised the value for gold loans in personal loan market during recent years.

The study is mainly based on primary data gathered from a survey. The data was collected with a self-completion questionnaire to maintain the confidentiality and reliability of the information gathered. But the researcher had to interview some respondents with their consent in filling the

questionnaire due to language problems. On the other hand, the data has been gathered from a non-probability sampling method: convenient sampling method where those who are willingly participate in this research were selected.

Data collection activities has been conducted among sixty gold loan clients on the basis of convenient sampling from Kaduwela area in Colombo district, Western province, Sri Lanka. Eventually, out of sixty distributed questionnaires, two were rejected, due to the problem of incompleteness. By conducting this research in a semi-urbanized area as Kaduwela, the results can be generalized for both urban and rural borrowers.

The researcher made sure that the sample consists with gold loan borrowers by distributing the self-completion questionnaires in the premises of six gold loan lending institutes located in Kaduwela area. Gold loan providing institutes can be mainly identified as banking institutes and non-banking institutes and due to inability in accessing to banking pawning divisions because of the security and confidentiality maintained in banking premises, the researcher has used only a sample from private gold loan lending institutes for collecting data.

## **5. FINDINGS AND DISCUSSION**

Analyzing the characteristics of the gold loan borrowers, it can be noticed that majority of the borrowers who engaged in gold loans are female while most of the borrowers came under the age limit of 41 -50. On the other hand, greater part of the borrowers is married and completed their education up to G.C.E. A/L. On top of that, most of the gold loan borrowers are under Rs 15,000 – Rs. 30,000 income slab.

According to the survey analysis, it was identified that these borrowers were mainly borrowing for consumption purposes and investment purposes. As per those two purposes, the borrowers' borrowing behavior is explained under five borrowing influencing variables such as over indebtedness, financial literacy, subjective norm towards consumer credit usage and perceived behavioral control.

With the use of regression model, it was proved that there is a significant positive relationship between over indebtedness, financial literacy, subjective norm towards consumer credit usage and perceived behavioral control with the average gold loan advance taken for consumption purposes. Conversely, regression model built up for investment purpose borrowing further demonstrated that there is a relationship between over indebtedness, financial literacy, attitude, towards consumer credit usage and perceived behavioral control and average gold loan advance taken for investment purpose.

In addition to that, borrowing topologies introduced by Worton, Grew, & Jessett (2014) on Consumer credit behaviour which is consisted with three borrowing topologies such as Survival borrowing, Lifestyle borrowing and Reluctant borrowing has been used to present the borrowing behaviour of people who take loans for consumption purposes. On the other hand the borrowing behaviour of people who take loans to invest in business is explained by another three borrowing topologies such as Lifestyle borrowing, Reluctant borrowing and Long Investment Borrowing.

## **6. CONCLUSION**

In summarizing the above behavioral models, it can be noticeable that the journeys throughout the borrowing topologies will be changed according to the changes arise in the debt level, financial literacy, attitude and norms towards consumer credit usage and the perceived behavioral control of the borrower. In the overall aspect, borrowers who take gold loans for investment purposes possess satisfactory financial management skills and repaying capability than consumption purpose borrowers. Therefore, it can be recommended to prioritize lending for investment purpose borrowers, because it generates more profit to the gold loan lenders while it reduces their risk level. Since those credits are utilized in investments, it will create a value to the economy. In addition to that, it is observed that there is a possibility in promoting gold loans as a source of credit for the development of low and middle income earners' lives as they are the main income categories who use this source of credit. And, it is important to note that there is a possibility in utilizing gold loans as a source of credit for women empowerment since this credit product records a higher accessibility for women. At the same time, it is important to note that with the promotion of gold loan as a source of credit for women and low income house holders for investment purposes with a parallel change in borrowers' debt level, attitude and norms towards consumer credit usage, financial literacy and perceived behavioural control will guide them towards higher standard of living. In conversely, borrowing for consumption purposes should be discouraged as it drag them to an over indebted situation.

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