

IMPACT OF DIGITAL GOLD INVESTMENT PLATFORMS ON SOUTH-INDIA'S TRADITIONAL GOLD MARKET

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Abstract:

South-India's conventional gold market, which has traditionally depended on physical gold in the form of gold bars and jewelry, is changing as a result of the rise of digital gold investment platforms. This paper examines how ease and affordability are driving the increasing use of alternative investment choices such as sovereign gold bonds, gold mutual funds, and gold exchange-traded funds (ETFs). The study looks at how consumer behavior is being affected by these digital channels, which provide a variety of possibilities while lowering the need for physical gold. It also draws attention to issues facing conventional gold markets, such as the decline in demand for gold bars and jewelry. The results shed light on the changing dynamics of the gold investment industry and highlight how conventional businesses must adjust to this digital change in order to remain relevant in the market. The impact of digital gold investment platforms on the conventional gold market is shaped by multiple elements, including social influences, traditional beliefs, technical improvements, and economic concerns, according to this study.

Keywords : Digital gold investment platforms, Traditional gold market, Physical gold, Gold ETFs, Gold mutual funds, Sovereign gold bonds, Consumer behavior.

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Introduction:

Gold has historically served as a fundamental element of both investment and cultural identity in India, particularly within the southern regions (Andhra Pradesh, Karnataka, Kerala, and Tamil Nadu). Traditionally, investments were made in tangible forms such as jewelry, coins, and bars. However, the emergence of digital gold investment platforms has created new opportunities for investors, enhancing convenience and accessibility. This paper examines how ease and affordability are driving the increasing use of alternative investment choices such as sovereign gold bonds, gold mutual funds, and gold exchange-traded funds (ETFs). The study explores how consumer behavior is being affected by these digital channels, which provide a variety of possibilities while reducing the need for physical gold.

In South India, gold transcends mere financial investment; it embodies substantial cultural significance. Historically, investments were primarily in physical assets, with purchases frequently occurring during festivals and weddings. This traditional method presented challenges, including issues related to storage, purity

verification, and liquidity. The advent of digital gold platforms has revolutionized the investment environment. These platforms enable investors to buy, sell, and hold gold in a digital format, with the physical gold securely stored in insured vaults. They facilitate fractional ownership, allowing for investments with smaller sums and removing the necessity for physical storage.

Southern India, known for its cultural affinity toward gold, recorded the highest gold ownership rates, with 76% of respondents reporting gold jewelry ownership (World Gold Council). This underscores the region's deep-rooted connection with traditional gold investments and its potential interaction with emerging digital gold platforms. The rise of digital gold has resulted in a decrease in demand for physical gold, particularly in urban areas where digital literacy is more prevalent. This shift has had repercussions for traditional jewelers and gold dealers, compelling them to adjust to the evolving market conditions. For example, a report by PwC India indicates that the growth of digital gold has adversely affected the demand for physical gold jewelry, leading to a significant reduction in tonnage and an increase in investment products.

Review of Literature:

P. Menakadevi, P. Prabha, and M. Latha Natarajan (2021) highlight gold's popularity as an investment due to its benefits but note a lack of awareness about its features and schemes. Most investors prefer gold jewelry, ETFs, and SGBs for higher returns. Zaimy Johana Johan (2020) examines gold investment preferences during COVID-19, showcasing supply-demand trends and customer choices using a price chart. Sampling techniques were used for the study. Sudindra and Naidu (2019) conclude that SGBs are superior to other gold investments due to tax exemptions, competitive prices, and collateral benefits, based on secondary data analysis. Shenoy and Ashwitha (2019) find that 67% of investors are satisfied with SGBs, with 66% preferring paper format and 34% DEMAT. They highlight SGBs as safe, authorized, and suitable for investors.

Statement of Problem:

The traditional gold market in South-India, deeply rooted in cultural and economic practices, faces significant challenges due to the rapid rise of digital gold investment platforms. These platforms offer alternative investment options such as gold ETFs, gold mutual funds, and sovereign gold bonds, which cater to modern consumer preferences for convenience and affordability. However, the shift raises concerns about the diminishing demand for physical gold, including gold bars and jewelry, which has traditionally dominated the market. Additionally, factors like changing social attitudes, technological advancements, and evolving financial habits further exacerbate the challenges for traditional stakeholders. This study seeks to address the gap in understanding the extent and nature of these impacts, offering insights into the interplay between digital innovations and long-established market practices.

Objectives of the study:

The purpose of this study is to:

- Analyze the rates of adoption of digital gold investing platforms in South India's various states and districts.

- Examine the ways in which the emergence of digital gold has affected conventional gold investment trends, such as shifts in the demand for physical gold.
- Determine the geographical differences in digital gold uptake and how they relate to socioeconomic characteristics.

Hypothesis of the Study:

H0: There is no relation or impact of the digital gold market on the traditional gold market.

H1: There is a positive effect of the digital gold market on the traditional gold market.

H2: Social factors and traditional beliefs significantly moderate the relationship between the digital gold market and the traditional gold market.

H3: Technological advancements in digital gold platforms positively influence consumer preferences away from physical gold.

H4: The adoption of sovereign gold bonds reduces the demand for gold jewelry in the traditional gold market.

Research Methodology:

The research methodology involved collecting secondary data from various government sources, including the Reserve Bank of India and the Ministry of Finance, to analyze the Sovereign Gold Bond Scheme. This included information on redemption prices, eligibility, and market dynamics, which are crucial for understanding the interaction between digital gold investments and traditional gold practices in South India.

1. Selection of Study Area

This study focuses on South India, an area that has a long-standing cultural affection for gold, especially when it comes to jewelry and bars. The impact of these digital investing strategies on traditional gold practices is best examined in South India, where digital gold investment platforms have also grown significantly. The socioeconomic diversity of the area offers important insights into different consumer tastes and behaviors, enabling a thorough examination of the changing dynamics between traditional and digital gold markets.

Findings of the Study:

Stock Market Participation in South Indian States: Registered Investors Overview (January 27, 2025)

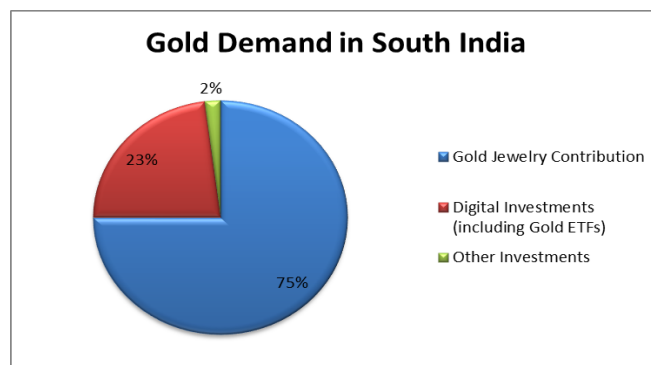
State	No_of_Clients	Change Over Prev. Month (%)	Change Over Prev. Quarter %	Change Over Prev. Year (%)
Andhra Pradesh	7888925	161542 (2.09%)	517243 (7.02%)	1665425 (26.76%)
Karnataka	11008399	185052 (1.71%)	571803 (5.48%)	2448456 (28.60%)
Kerala	4594776	83222 (1.84%)	273261 (6.32%)	1051787 (29.69%)
Tamil Nadu	9926111	193150 (1.98%)	565481 (6.04%)	2188596 (28.29%)
Telangana	6077116	122149 (2.05%)	377907 (6.63%)	1330226 (28.02%)

Source : BSE

The analysis of stock market participation in South Indian states, based on the **Registered Investors Summary as of 27th January 2025** from the BSE, highlights notable regional trends. Among the states, **Karnataka** leads with the highest number of registered investors at 11 million, reflecting a strong engagement in the financial markets. This is followed by **Tamil Nadu** with approximately 9.9 million and **Telangana** with 6 million investors. **Kerala** and **Andhra Pradesh** record 4.6 million and 7.9 million investors, respectively. In terms of growth, **Kerala** exhibited the highest year-on-year growth rate of **29.69%**, closely followed by Karnataka (**28.60%**) and Tamil Nadu (**28.29%**). Telangana and Andhra Pradesh also demonstrated significant growth rates of **28.02%** and **26.76%**, respectively.

Monthly growth figures reveal steady investor acquisition, with rates ranging from **1.71% in Karnataka** to **2.09% in Andhra Pradesh**, indicating consistent expansion. Quarterly growth rates also support this upward trend, with Kerala showing a notable increase of **6.32%**, and Andhra Pradesh achieving the highest quarterly growth of **7.02%**. These figures underscore the increasing financial awareness and participation in South India, which serves as a strong indicator for potential adoption of modern investment products, such as Digital Gold and Gold ETFs. The high year-on-year growth rates suggest a sustained rise in investor interest, reflecting a favorable environment for financial innovations in the region.

1. Trends in Digital Gold Investments:



Source: Economic Times, Karvy Private Wealth Report.

South India plays a crucial role in India's gold market, accounting for 40% of the nation's total gold demand. Traditional gold purchases, particularly in the form of jewelry, continue to dominate, contributing to 75% of the overall demand. This significant share illustrates the cultural and historical importance of gold jewelry in the region.

Despite this strong reliance on traditional gold, there is a notable shift toward digital gold investments. Investment in Gold Exchange-Traded Funds (ETFs) has surged by 150%, reaching Rs 2,440 crore. This growth reflects an increasing acceptance of modern investment vehicles among consumers, showcasing a desire for diversification beyond physical gold. The investment in gold, which includes digital gold and ETFs, accounts for 23% of the total demand. This trend indicates that consumers are beginning to explore alternative forms of gold investment, potentially influenced by factors such as convenience, lower transaction costs, and the evolving landscape of digital finance.

Furthermore, the varying VAT rates across South Indian states impact sales dynamics, with lower VAT (1-2%) in states like Karnataka and Tamil Nadu encouraging higher sales. In contrast, Kerala's relatively higher VAT of 4% has a dampening effect on demand for both traditional and digital gold. These insights highlight the evolving landscape of the gold market in South India, indicating that while traditional gold remains dominant, digital investment platforms are gaining traction and shaping consumer behaviors in the region.

1.1 Table: Premature Redemption Details for Sovereign Gold Bonds

Series	Issue Date	Due Date for Premature Redemption	Redemption Price (per unit)	Price Calculation Dates
Series VIII	January 21, 2020	January 21, 2025	₹7,926	January 16, 2025; January 17, 2025; January 20, 2025
Series XIV	January 01, 2018	January 01, 2025	₹7,626	December 27, 2024; December 30, 2024; December 31, 2024
Series IV	January 01, 2019	January 01, 2025	₹7,626	December 27, 2024; December 30, 2024; December 31, 2024
Series XIV	January 01, 2018	January 01, 2024	₹6,331	December 27, 2023; December 28, 2023; December 29, 2023
Series XIV	January 01, 2018	December 31, 2022	₹5,470	December 28, 2022; December 29, 2022; December 30, 2022

Source: Government of India Notifications on Sovereign Gold Bond Scheme (F.No. 4(7)–B(W&M)/2019; F.No. 4(25)–W&M/2017; F.No. 4(22)–B(W&M)/2018); Reserve Bank of India (RBI) Website.

The table above summarizes the premature redemption details of various series of Sovereign Gold Bonds (SGBs) as per the relevant Government of India notifications.

Series VIII (issued on January 21, 2020) allows for premature redemption on January 21, 2025, with a redemption price set at ₹7,926 per unit, based on the average closing gold prices for 999 purity over the three business days prior to redemption (January 16, 17, and 20, 2025).

Series XIV (issued on January 01, 2018) has two significant redemption dates:

The first due date for premature redemption was on January 01, 2025, with a redemption price of ₹7,626 per unit, calculated from the closing prices from December 27 to 31, 2024.

The next due date is January 01, 2024, with a redemption price of ₹6,331 per unit, based on closing prices from December 27 to 29, 2023.

Additionally, for the same series, the first premature redemption date occurred on December 31, 2022, with a price of ₹5,470 per unit, reflecting market conditions at that time.

These redemption prices reflect the current market value of gold and demonstrate how SGBs provide an avenue for investors to benefit from the fluctuations in gold prices while still being tied to government guarantees. The redemption trends and prices can influence consumer behavior regarding physical gold purchases, thereby impacting the traditional gold market.

2. Gold ETFs Adoption:

Gold ETFs have gained significant traction in India since their introduction in 2007, offering investors a convenient and liquid alternative to physical gold. By the end of 2022, the total Assets Under Management (AUM) in gold ETFs reached approximately ₹214.6 billion (US\$2.5 billion), demonstrating a strong recovery from previous downturns. The rise in gold prices and increasing economic uncertainty, particularly during the COVID-19 pandemic, have fueled investor interest, leading to net inflows into gold ETFs.

In South India, gold savings funds and multi-asset allocation funds have emerged as popular vehicles for investing in gold ETFs. Gold savings funds, managed by mutual fund houses, had a combined AUM of about ₹68 billion, while multi-asset allocation funds totaled ₹146.5 billion, showcasing substantial interest in gold-backed investments.

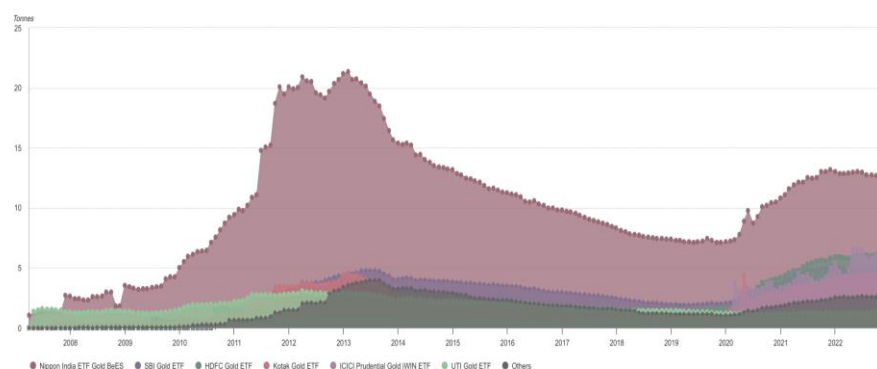
Despite volatility in gold prices and competition from equities and cryptocurrencies, Indian investors continue to demonstrate confidence in gold ETFs. The participation of younger, tech-savvy investors further supports this trend, indicating a shift in investment preferences. However, retail participation in gold ETFs remains low compared to physical gold investments, suggesting opportunities for growth in investor education and awareness campaigns.

3. Comparative Analysis:

In the evolving landscape of gold investment in India, traditional preferences for physical gold remain strong, yet a significant shift towards digital investment platforms is emerging. While urban investors have historically favored gold bars and coins, the rise of digital channels has facilitated access to innovative gold-backed financial products. Competing against the robust performance of equities, which have seen substantial growth in recent years, gold-related investments have faced challenges. The introduction of Gold ETFs and Sovereign Gold Bonds (SGBs) has transformed the investment environment, especially during periods of economic uncertainty, such as the COVID-19 pandemic, which spurred safe-haven demand for gold. By the end of 2022, the Indian gold ETF market featured 11 ETFs with total assets under management of Rs. 214.6 billion and gold holdings of 38 tons. This comparative analysis highlights the shifting dynamics between traditional gold investments and emerging digital platforms, indicating a growing acceptance of gold ETFs among a tech-savvy, younger demographic.

3.1. Total holdings of Indian gold ETFs have increased since the pandemic

Holdings of Indian gold ETFs on exchanges



Source: Bloomberg, Respective gold ETF providers, World Gold Council

3.2. Growth of Digital Gold Investments Among Young Investors in India

The digital gold investment market in India has experienced significant growth over the past five years, driven primarily by young, tech-savvy investors aged 18 to 35. Despite the online jewelry market accounting for less than 2% of total sales, digital gold trading volume surged to approximately 4-5 tons in 2022, up from less than 0.5 tons in 2016. The market comprises around 16 companies, with major players like MMTC-PAMP, Augmont, and Safe Gold supplying the gold. The expansion of this segment is expected to continue, fueled by increasing financial awareness in urban areas and greater smartphone penetration. Sales typically peak during auspicious festivals like Dhanteras and Akshaya Tritiya, reflecting cultural influences on investment behavior.

4 Regulatory Environment:

4.1 Impact of Taxation Changes on Gold Investment Products

The 2024 Union Budget has introduced significant changes to the taxation of gold investment products, potentially impacting investor behavior in South India. Gold ETFs, which are passively managed mutual fund schemes that invest in gold bullion of 99.5% purity, now benefit from a simplified long-term capital gains (LTCG) tax structure. Investors can claim LTCG at a rate of 12.5% if the asset is held for a minimum of 12 months. In contrast, gold mutual funds, classified as funds of funds, are subject to a longer holding period of 24 months for LTCG, also taxed at 12.5%. This disparity between gold ETFs and gold mutual funds may incentivize investors to favor Gold ETFs due to the shorter holding period and favorable taxation terms. Overall, these budgetary changes enhance the attractiveness of gold ETFs, influencing investment choices and potentially increasing their adoption among South Indian investors.

6 Factors Influencing Adoption:

The adoption of digital gold investments in South India is shaped by several key factors:

1. **Cultural Shifts:** Increasing acceptance of digital gold, particularly among younger investors, as technology becomes integral to investment decisions.
2. **Convenience and Accessibility:** Online platforms offer easy purchasing, selling, and management of investments, appealing to a broader audience.
3. **Affordability:** Lower entry costs compared to traditional gold make digital options accessible to first-time and budget-conscious investors.
4. **Technological Advancements:** The rise of smartphones and internet access facilitates seamless transactions and real-time market updates.
5. **Regulatory Support:** Government initiatives promoting digital investment products boost market confidence and participation.
6. **Investment Diversification:** Digital gold allows investors to diversify their portfolios without the costs of physical storage.
7. **Awareness and Education:** Increased knowledge about digital gold products helps consumers make informed investment decisions.
8. **Economic Factors:** Gold is viewed as a safe-haven asset, particularly during economic uncertainty, driving interest in digital options.

These factors collectively foster a favorable environment for the growth of digital gold investments in South India.

Limitations of the Study:

This study has several limitations, including its focus on the South-Indian gold market, which may limit the applicability of findings to other regions. Furthermore, limited access to recent data from conventional stakeholders and digital gold platforms may restrict the depth of the investigation. The study might not adequately represent a range of customer viewpoints, and the findings' long-term applicability may be impacted by the quick advancement of technology. Finally, there are fewer historical data points available for comparison due to the recent development of digital gold platforms.

Suggestions and recommendations:

Assessing the technological impacts of digital and physical gold investments can provide valuable insights for investors, helping them understand the potential of both markets. Trustworthiness emerges as a crucial factor influencing decisions in both domains, with confidence in security measures playing a vital role in shaping investor preferences. Perceptions of gold as a secure store of value further guide individuals in choosing between digital and traditional forms. Moreover, prioritizing transparency in transactions is essential to build investor trust and confidence in both markets. Finally, evaluating the balance between trust in technology and tradition can significantly influence decision-making, highlighting the unique considerations investors face when navigating digital and physical gold investment options.

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