

TRANSFORMING GOLD: SHIFTING ITS GLITTER TO THE DIGITAL SPHERE

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INTRODUCTION: DIGITAL GOLD

In 3000 BC, shortly after humanity's initial encounter with gold, the metal gained tremendous significance within ancient civilizations. The unearthing of Indo-Greek, Kushan, Roman, and Gupta Gold coins showcases its extensive utilization during the early historic era, with the inception of gold coins occurring circa 270 BC. Literary evidence points to an abundance and diverse array of gold and gold-based artifacts, signifying gold's integral role in the evolution of human culture across ancient to modern times.

Gold is often revered as "God's Money" and continues to be ceremonially offered in temples during auspicious occasions. Several years ago, a significant quantity of gold was discovered in a single temple.

This paper thoroughly examines the historical methods of gold investment while delving into the realm of digital gold. It investigates the advantages, disadvantages, and the procedures for investing in digital gold, with the intent to debunk prevalent myths surrounding this form of investment.

METHODOLOGY

This paper relies on secondary information gathered from diverse resources, including journals, periodicals, books, articles, relevant papers, and literature focused on the emergence of digital technology in the realm of gold. E-sources have been extensively employed to gather and assimilate the most recently updated data.

Gold: An Overview

India has emerged as the largest consumer of gold, with jewelry consumption reaching 35.3 tonnes (valued at 600.4 Crore INR) in Q2 of 2023. Over recent years, gold prices in India have notably trended upward.

The projected growth of the global jewelry market in India is estimated to be USD 21.54 billion between 2023 and 2027. The jewelry demand in Q2 of 2023 recorded 128.6 tonnes, amounting to Rs. 67,120 crores. India contributes to nearly 25% of the global gold demand, second only to China.

Gold has demonstrated a compound annual growth rate (CAGR) of 9.18% since 1950. In 1950, gold was valued at Rs. 99 per 10 grams, and it is currently priced at Rs. 60,300 per 10 grams, marking a market gain of 60,809.09% over the past 73 years.

Physical gold takes various forms, including Gold Coins, Bullion, and Technology (utilized as an industrial metal across diverse applications), along with meeting RBI demand.

Understanding Digital Gold

Apart from physical gold, there exists a new way to invest in the precious metal: Digital Gold. This concept of Digital Gold is relatively new in India. As implied by the name, digital gold is a product bought and sold online. It serves as an electronic form of gold, enabling investors to purchase, hold, and trade gold without physically possessing it.

Digital gold takes the form of 'Gold Exchange Traded Funds (ETFs), Sovereign Gold Bonds (SGB), Gold Mutual Funds, and Gold Future Contracts'. One can invest as little as Rs. 100 in digital gold from anywhere and at any time through online platforms. After the investment, the trading company deposits an equivalent amount of 24 K 99.9% pure gold in the investor's name in the vault. Subsequently, an equal quantity of 99.9% 24 K pure gold is removed from the vault upon sale.

Payment apps like Paytm, Phonepe, and Google Pay have significantly eased the process of investing in digital gold. Many of these apps have partnered with trusted entities such as MMTC-PAMP or SafeGold to enable these transactions round the clock at the touch of a button. In India, Augmont Enterprises Private Limited, State-owned metal and Minerals Trading Corporation of India (MMTC), Produits Artistiques Metaux Precieux, Switzerland (PAMP), and Digital Gold India Pvt. Ltd. with its Safe Gold brand issue digital gold. MMTC and PAMP have formed a joint venture. All these websites and companies function as platforms for trading companies MMTC, PAMP, Safe Gold, and Augmont.

Transactions in digital gold can be completed with a few simple clicks in a matter of seconds. With gold prices skyrocketing every day, purchasing gold has become increasingly unattainable for the common person, even after saving money for months. However, this issue finds resolution through digital gold. Individuals can initiate investments with amounts as low as Rs. 10. Furthermore, investing in digital gold offers enhanced accessibility, affordability, and security when compared to physical gold.

The appeal of purchasing digital gold lies in various reasons. Its ease of access allows both buyers and sellers to transact online from the comfort of their homes. Since digital gold can be bought in smaller quantities, it becomes more accessible to a broader spectrum of investors. Moreover, transaction costs are notably economical in comparison to investments in physical gold. The transparency provided by digital gold in terms of costs and market patterns empowers investors to make informed choices, enabling better diversification and risk distribution among assets. This platform also enables investors to evaluate their investment performance and gain valuable insights.

The entities issuing digital gold need to maintain strong funding continually for times when investors might want to redeem or sell back their digital gold. Additionally, there is a necessity to have physical gold in vaults for those seeking delivery.

Simultaneously, investors intending to exchange physical gold elsewhere must monitor market price fluctuations, as delays in redemption might lead to missing out on advantageous selling opportunities. A delay in selling the gold could also result in investors not receiving enough funds when needed.

In 2021, Digital Gold emerged as a significant favorite among modern-age investors, particularly fueled by millennials and digitally savvy generations. This trend was buoyed by the strong belief in the metal as a secure asset class and its long-term profitability, attracting a considerable following, especially amid the uncertain economic backdrop during the pandemic.

The surge in small-ticket investment portfolios in India corresponds to its sizable millennial populace, accounting for over 34%, approximately 440 million individuals. This demographic highlights India as a prominent young nation, boasting the largest concentration of millennials. With the average age of an Indian now at around 28-29 years, the nation's youth typically begins their professional careers between the ages of 25-26. They are progressively more conscious of investment opportunities and savings. By the age of 29, many have attained relatively stable employment, moderate income streams, and a growing interest in managing their personal finances.

It's evident that people, particularly millennials, are content with this digital approach, considering it less risky than stocks and with superior intrinsic value. This satisfaction arises from the fact that investing digitally in this precious metal offers the added advantage of holding it in physical form. More than ever, millennials are captivated by this yellow metal, contributing to the country's economy. With each new customer joining the realm of digital investments, this market is establishing a robust presence. The prevalence of youthful populations in emerging markets is instilling trust in the online form and encouraging digital gold investments in India. Fractional and consistent investments that allow wealth accumulation over time and the convenience of managing it from the comfort of one's home with a simple click are some of the factors propelling new-age investors toward this option. This trend is anticipated to escalate in the coming years.

These younger individuals form the primary driving force behind the digital economy. Early-career professionals, who are earning modest salaries, are venturing into the investing world, contributing smaller yet consistent amounts over an extended period, aiming to amass wealth in the long run. The pandemic has prompted the youth to recognize the significance of saving for unforeseen circumstances, resulting in the emergence of a new class of investors. These modern investors are eager to explore fresh assets through innovative investment methods.

There's a transformation in outlook and planning for the future. While Indians have traditionally held an emotional connection with gold jewelry, an increasing number of individuals now regard gold as an investment asset to diversify their portfolios.

Certainly, since a buyer can purchase digital gold for as low as Rs. 100, it becomes an ideal gift not only for grand social occasions where gold is traditionally presented, and its value appreciates over time.

Another substantial advantage of digital gold is its role in promoting financial inclusion among unbanked populations. Enabling access to digital gold allows individuals to partake in digital transactions that would otherwise be unfeasible due to the absence of formal banking infrastructure.

Today, an abundance of information is easily accessible with a simple click. People are leveraging this information to make well-informed decisions, especially in financial planning. It's anticipated that between 2024 and 2025, there will be widespread adoption of online wealth-tech platforms, expanding investment offerings to include gold, mutual funds, and stocks.

The use of technology, streamlined transactions, and secure storage may allure new investors to digital gold. This avenue safeguards investors from the threats of damage or theft, offering high liquidity and the flexibility to withdraw funds at any time. Additionally, digital gold can serve as collateral for obtaining loans.

Challenges exist in the adoption of digital gold in emerging markets. A lot depends on investors' comfort, as many still prefer physical gold due to the tactile experience it offers, which is absent in the digital gold format. However, challenges faced with Digital Gold include the requirement for online gold-selling companies to demonstrate credibility and financial stability to support their online gold business.

Additionally, there is a risk of cyber fraud and security concerns associated with digital gold transactions, as they are conducted online, making investors wary of engaging with digital gold platforms.

Moreover, digital gold currently lacks transferability as most payment apps do not offer this feature. Furthermore, digital gold does not seem to meet the definition of a security according to the Securities Contract (Regulation) Act.

Investing in virtual gold has its constraints, with different trading merchants imposing various limitations. For instance, MMTC-PAMP enforces a lock-up period of 5 years. The absence of an official regulatory body overseeing the digital gold industry poses a challenge in ensuring the integrity of the gold reserves supporting the digital currency. Exceptions such as Sovereign Gold Bonds are a remedy to this issue. Consequently, investors must autonomously evaluate the risks and challenges associated with the digital gold provider.

Moreover, customers might face deceit when jewelers hand over lower-quality gold instead of the higher quality gold they have accumulated digitally. Among the most notable challenges is the lack of awareness and trust in the concept. In emerging markets, especially rural areas, many individuals are unfamiliar with digital gold and may be hesitant to invest in an asset they cannot physically hold or see.

Additionally, concerns arise with how payment apps offer the purchase of gold for nominal amounts without providing a delivery option. Digital gold products claim that once a purchase is made, an equivalent amount of physical gold is stored separately in a vault on behalf of the customer. However, the verification of this claim raises questions. For example, if a customer makes a digital purchase of Rs. 1 (which is possible), is it reasonable or practical to assume that an equivalent amount of gold is separately stored in a vault exclusively for this specific customer?

To mitigate these risks, the implementation of regulatory frameworks is essential to ensure that digital gold providers are reputable and compliant with relevant regulations. The absence of an official regulatory body entails an element of risk.

The establishment of policies to regulate digital gold will likely encourage greater adoption. As more Indians turn to digital gold for long-term investment, regulated growth will prove to be the most effective means of progress.

Given India's historical fondness for gold and its enduring significance, traditional gold investments are undoubtedly set to evolve while maintaining a consistent presence. The future potential for gold investors and holders appears promising.

Although India continues to be among the world's largest markets for gold bars and coins, the recent surge in equity markets, increased financial literacy, and government regulations have notably affected the demand for these precious metals. According to the World Gold Council's latest report, Indian youths' savings patterns diverge significantly from those of their parents, showing a strong inclination toward investing in equities and new financial products such as digital gold.

The report also acknowledges that the rising income levels should augment gold purchases. However, gold's future demand might face competition from other high-value consumer products, such as electronics and mobile phones. Nevertheless, gold remains a favored investment among lower and middle-income groups who historically preferred gold over bank deposit accounts.

Digital gold has the potential to revolutionize the financial landscape of emerging markets by offering a secure and accessible alternative to traditional gold investment options.

According to traditional wisdom, any escalation of a geopolitical conflict is typically viewed as an opportunity to invest in gold, considering it a hedge against uncertainty. The world is progressively shifting from traditional physical assets to digital ones. Despite drawbacks such as investment limits and a lack of a regulatory body, virtual gold stands as a profitable investment choice. It provides flexibility, purity, and a reliable value for money.

The lack of tangibility and the fact that digital gold is still a nascent concept in the country may hinder its growth. However, this is gradually changing as people become more aware of its

benefits. Taking active steps to promote its advantages as a safe and dependable investment option will accelerate the adoption of digital gold among investors.

The report by WGC states that a substantial amount of lending against gold occurs in the informal sector, further reinforcing the fact that gold is a favoured investment among low-income or rural households in India. Therefore, it is essential to raise awareness among people residing in rural areas.

Since the onset of the Israel-Hamas conflict, gold prices have seen an uptick, with investors turning to the yellow metal due to its safe-haven demand. Gold prices on the MCX have risen by just over 5 percent since the conflict began.

Digital gold stands poised to transform the gold market within emerging economies. Personally, I have unwavering faith in the value of this precious metal. I firmly believe that the forthcoming years will witness remarkable advancements in its adoption and regulation. Despite the various economic fluctuations, gold has consistently delivered an impressive Compound Annual Growth Rate (CAGR) of approximately 15%. This is three times more than what one might typically expect from one of the most trusted asset classes, such as a Fixed Deposit.

The fusion of trust in gold with the convenience of technology is set to enhance the value and appeal of this asset, particularly among those who are digitally inclined.