

DO PRIVATE DEALERS HANDLE GOLD CRISIS BETTER THAN BANKERS? A STUDY ON PAWNING BUSINESS IN THE NORTH WESTERN PROVINCE

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Gold crisis is the terms used to describe implications arise from declining gold prices which had been used as collateral to extend loan facilities (gold-backed loans). With the declining gold prices since 2011, banks and private dealers faced problems of recovering gold-backed loans and reducing default rates (The extended loan amount is higher than that of current gold prices). Then the purpose of this study is to explore basis of strategies adopted by lenders to handle 'gold crisis'. According to Central Bank of Sri Lanka, 22 percent of the loans granted by all registered banks (both Commercial and non-commercial banks) in 2012 were gold backed loans (Annual Report of Central Bank of Sri Lanka, 2013). Therefore, 'gold crisis' has a significant impact on the profitability of banking sector in Sri Lanka. Guided by case study research method, this study compares strategies adopted by both established banks and private firms engaged in pawning business. According to reviewed literature, three propositions were drawn on the years of experience, sensitivity to gold price fluctuation and the contexts where those banks were located. This study selected all banks, registered private dealers and some money lenders (selected on snowball sampling) in Kapitiyuliya electorate in the North-Western Province of Sri Lanka. Then cases were screened to eliminate marginal cases on information given by informants (officials, competitors). Final cases include: two established banks, two rural banks, and three private dealers. In-depth interviews, direct observations supplemented with documents and published data (Annual Reports) were employed for data collection. Findings reveal that the years of experience in pawning business and alertness to gold price fluctuations, as basis for strategies to overcome implications of 'gold crisis'. Also proposition on context shows that established non-commercial banks in rural setting were not subjected to the gold crisis. Because the amount they borrowed were not dependent upon the pawned gold value but on the borrowers repayment capacity.

Key words: Gold crisis, North Central Province, Pawning