

STATE BANK OF INDIA OFFICERS' ASSOCIATION

(BENGAL CIRCLE)

(Registered under Trade Unions Act 1926-Regd. No. 6908)

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To All Members (Please Circulate)

EMPOWERMENT SERIES GOLD LOAN

Gold backed loans are becoming more popular with the Banks which tend to consider them safer than other unsecured borrowing. India's economy is expected to contract this financial year as the pandemic ravages activity worldwide, and there are growing concerns that people will struggle to repay riskier business and personal loans. As banks could exhibit greater risk aversion in the current context, Gold loans would be convenient route for many customers to raise liquidity and working capital. This offers ample opportunity for our Bank to garner good remunerative business with this low risk and less paperwork related loan. This is a lucrative segment which is being vouched by several private sector players too. In order to remain competitive with generating ample business, it is time our members remain well aware regarding the benefits and the areas of risk exposures with this emerging business segment. In order to empower our members, we bring forth few important aspects of the products which need to be kept in mind while sourcing and processing Gold loans.

- **Quality of Gold to be certified from Bank's empaneled Goldsmith only. Sanction of Gold loans to Goldsmith or his family preferably to be processed with extra care / caution.**
- **Cash Officer is purely responsible for the purity of the gold pledged. Testing of gold by Touch Stone method; Nitric Acid and Specific Gravity method etc. should be meticulously carried out for ascertaining and confirming the purity of gold.**
- **Ornaments with alphabetic initials / names preferably to be taken after satisfying about the ownership through discreet enquiry with related invoices/ bills and other documents.**
- **The gross weight of the pledged ornaments to be arrived at by excluding all extraneous matters such as wax, string, fastening etc. as well as precious stones on a liberal scale.**
- **Ornaments made of brass or other base metal with a coating of gold should not be accepted and caution must be observed that such ornaments are not passed off as made of solid gold. Extra caution to be adopted for ornaments like thick bangles.**
- **Balance the No. of Gold loan A/cs with the Loan Balance File and also Gold Loan In/Out Register at Monthly intervals.**
- **Reputed Jewel Appraisers' services along with his KYC and valid Trade License for testing of gold ornaments for purity should be carried out for loans exceeding Rs.50000/- and his certificate should be obtained and kept on record at borrower's cost. The appraiser fee must be paid by Gold loan borrower from his savings a/c to Gold Appraiser's SB/CA.**
- **Ensure that no loan is granted against gold bar / bullion.**

Apropos the above, we suggest following:

1. Systems and Procedures laid down in regard to KYC Norms, appraisal, sanction, Joint custody of gold ornaments and follow-up of Gold Loans should be complied with meticulously.
2. Every effort in follow-up of gold loan advances should be made and record the efforts made.
3. In high value gold loans the help of gold assaying machine may be taken at nearby identified Branch to recheck the quality of gold. The machine is not a substitute of the existing methods of assessing the purity of the gold ornaments as mentioned in para above, but it will supplement it.
4. The quantity and value of Gold in custody may be re-verified each time when the change of permanent incumbency (Cash Officer & Service/ Branch Manager) takes place.
5. There should be at least two(2) reputed jewel Assaying Appraisers at each branch so that Branch has the option to call any of them at irregular interval without knowledge of the proposed borrower(s).

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General Secretary

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7. Each branch should ensure that Gold is kept within approved Gold Retention Limit which needs to be reviewed annually.
8. Branches to keep the ornament bags and documents in seriatim, the Serial Number of which should be as "LOS ID/BR.CODE/Branch Serial Number/FY" e.g.: 1234567/01234/001/2019-20 along with loan account number. This will ensure that the Application Id will remain unique forever as the Branch Code and Serial Number of document in the respective financial year get repeated.
9. On repayment of a loan, the ornaments held as security for it together with the demand promissory note duly discharged should be returned to the borrower(s) and his/their acknowledgement for receipt of the ornaments obtained in the Gold Loan Ledger. The acknowledgement should state that the ornaments received by him/them are '**complete and in order**'. Keep contact of Gold Appraiser with the Borrower to the minimal possible and Gold appraiser should not have access to any data like loan amount, borrower personal data, etc.

Procedure of Gold Testing:

Branch Cash Officer / Award Staff (Senior Special Assistant/ Special Assistant / Senior Assistant assigned the job of Gold Loan processing) is responsible for ensuring genuineness and purity of gold ornaments by using the following methods:

• Touch stone Method

Under this method, the gold ornaments are rubbed against the touchstone and the impression is compared with the impression of the standard gold.

• Nitric Acid Test

When Nitric Acid is applied on pure gold, it makes no impression. Few drops of nitric acid are to be dropped on the ornaments and reaction is to be observed. Simultaneously, few drops of the acid should be dropped on the impression of gold on touch stone and reaction observed. If the extent of fumes followed by foam is more, it indicates that the metal is spurious and if the nature of the smear remains unaltered, the ornament is said to be made of pure gold. Nitric acid turns inferior gold into coppery color. The degree of discoloration varies as per the metal used for the alloy.

• Specific gravity test

This method is applied to ornaments purportedly made from SOLID GOLD with no extraneous matter, such as precious or semi-precious stones, etc. Following steps should be followed:

- i) Weigh the ornament in air (say weight is X),
- ii) Weigh the ornaments in water (say weight is Y)
- iii) Apply the following formulae: (*Specific gravity of 24 carat gold is 19.3*)
$$19.3 = X / (X-Y)$$
$$Y = X (19.3 - 1) / (19.3)$$

If the weight in water (Y) is less than the result indicated above, it proves that the ornaments are not made of solid gold but contain silver or some base metal.

In recent past, during visit to various branches several incorrect practices were observed which needs to be taken care of and remain vigilant regarding the same to safeguard the interest of concerned officers and the Bank at large, few of them are undernoted for information of our members:

- ✓ Purity of the ornaments were tested by the Goldsmith having close relation of the borrower.
- ✓ Extra caution was not exercised when multiple gold loans were sanctioned to the same borrower.
- ✓ Independent purity check was not undertaken by the Cash-in-Charge. There was over reliance on the opinion of the gold smith.
- ✓ Purity check through gold assaying machine was not undertaken.
- ✓ Gold Loan was sanctioned against spurious gold.
- ✓ False certification by the Goldsmith.
- ✓ Unauthorized access of unwarranted persons/ gold smith at Bank's Vault.

These are some of the suggestions and preventive vigilance measures, which the undersigned wishes to emphasize and share with all the members with the intent to garner remunerative business for the bank. Simultaneously we also intend to imbibe an ethical work culture amongst all. In the long run this will protect the interests of our members and in general will ultimately lead to an enriching working environment which will be mutually beneficial to members and our esteemed institution as well.

With greetings,



(Shubhajyoti Chattopadhyay)
General Secretary

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