



Adapting To Change: The Impact Of Economic Shifts On Cooperative Banks In Kerala

Dr Sajeev Kumar B (HSST Senior in Commerce)

Binitha R (Research Scholar University of Kerala)

Abstract: Demonetization is a tool to battle Inflation, Black Money, Corruption and Crime discourage a cash dependent economy and help trade. Its policy of the government by banning Rs. 500 and Rs.1000 currency notes has influenced all almost all the corner of the economy. Its effect on Banking Sector is significant as Bank is a center for channeling the legal tender money to all needs of the society. The biggest beneficiaries of demonetization are Banks. It made the banks to accept the deposits without any cost of promotion and drastically increased liquidity position of the banks. The present study is made out of available literature on post demonetization. It portrayed the effect of demonetization on Banking Sector. It encompassed the recent decision of the central government on Demonetization and its gradual effect on Indian banking sector.

Key Words: Demonetization, Banks, Liquidity, cooperative banks.

I. Introduction

The cooperative banking sector plays a vital role in India's financial landscape, particularly in rural and semi-urban areas. Established on the principles of mutual assistance and collective welfare, cooperative banks aim to serve their members by providing affordable credit and savings options. However, this sector has faced significant challenges in recent years, particularly due to two monumental events: the demonetization initiative introduced by the Government of India in November 2016 and the unprecedented global pandemic that emerged in 2020. Demonetization aimed to curb black money, reduce corruption, and promote a cashless economy. While it brought about a temporary surge in deposits and digital transactions, it also led to liquidity crises and operational disruptions, especially for smaller financial institutions like cooperative banks. These banks, which traditionally rely on local deposits and community relationships, faced difficulties adapting to the sudden shift in the financial ecosystem. The COVID-19 pandemic further exacerbated the challenges for the cooperative banking sector. Lockdowns and social distancing measures

led to a decline in economic activity, resulting in increased loan defaults and a significant decline in new lending. Cooperative banks, already under pressure, struggled to maintain their operational viability while ensuring the financial security of their members. This study aims to analyze the combined effects of demonetization and the pandemic on the cooperative banking sector in Trivandrum District. By examining the operational, financial, and social implications of these events, this research seeks to provide insights into the resilience and adaptability of cooperative banks during times of crisis, offering valuable recommendations for policy and practice to enhance their sustainability in the future. Co-operative banks have their own salient and distinctive features. They are set up with built-in safeguards but are handicapped by serious infirmities. At the very outset, it is worthy of stating that they are different from other banks and co-operative societies. Co-operative Banks are those banks which are registered under the co-operative Societies Act 1904 and are controlled by the provisions of the Banking Regulation Act. Demonetization and co-operative banks Demonetization had effected the functioning of co-operative banks in Kerala, not only in the account related transactions but also in the payment and repayment of loans. In Kerala it is normal practice that people deposit their entire earning form their service tenure in co-operative bank account as fixed deposit for earning high interest earnings because cooperative banks always offer high fixed deposit rate. The other reason for depositing money in co-operative banks is that it is in their native place; it does not require a lot of documentation and does not need the tedious process of the fulfillment of KYC norms. So if a man goes to deposit money, normally the manager knows everyone, even if he does not he can just ask some local people as everyone knows everyone and the accounts are opened by depositing the money(**Source: Economic Review State Planning Board-2021**)

II Review of Literature

Nithin and Sharmila (2016) studied demonetization and its impact on Indian Economy. They opined that demonetization has short term negative impact on different sectors of the economy and such impacts are solved when the new currency notes are widely circulated in the economy. They also argued that the government should clear all the problems created due to demonetization and help the economy to work smoothly.

Nikita Gajjar (2016) deliberated a study on Black Money in India: Present Status and Future Challenges and Demonetization. She described the framework, policy options and strategies that Indian Government should adapt to tackle with this issue and the future challenges to be faced by the Government.

Vijay and Shiva (2016) examined demonetization and its complete financial inclusion. They felt that the rewards of demonetization are much encouraging and the demonetization is in the long-term interest of the country. They expressed that it had given temporary pain but it taught financial lessons. It influenced banking industries to do considerably investment on digitalization of banking services.

Manpreet Kaur (2017) conducted a study on demonetization and impact on Cashless Payment System. He said that the cashless system in the economy has many fruitful benefits less time-consuming, less cost paper

less transaction etc. and he expected that the future transaction system in all the sectors is cashless transaction system.

Lokesh Uke (2017) researched on demonetization and its effects in India. He studied positive and negative impact of demonetization in India. The study was based on secondary data available in newspaper, magazines etc. The main purpose of demonetization is to eradicate the black money and diminish the corruption. That Government of India has become success to some extent. Demonetization had negative impact for a short duration on Indian financial markets. But he said that the real impact will be shown in future.

Sweta Singhal (2017) carried out research on Demonetization and E Banking in India. It was a case study to check the awareness level of people of rural areas in India about e-banking facilities and how much it has increased after demonetization. A sample size of 100 was used with ANNOVA test to show that rural people differ much with urban people in their awareness level as well as usage level of e-banking. It was found that urban male youth have higher awareness and usage of e-banking. She felt that the study shall also be helpful for banks to improve their e-banking facilities.

III Objectives of the Study

1. To evaluate the Impact of Demonetization and covid pandemic in cooperative banks
2. To examine the Operational Challenges during the Post demonetization and post Pandemic.
3. To evaluate the effectiveness of core banking system in cooperative banks in Kerala
4. To analyze Customer Satisfaction of cooperative banks in Kerala during the time of post demonetization and pandemic economy

Statement of the Problem

The cooperative banking sector in India, particularly in Trivandrum District, has faced unprecedented challenges in the wake of two major events, the demonetization initiative of November 2016 and the COVID-19 pandemic that began in early 2020. While demonetization aimed to strengthen the formal economy by promoting digital transactions and reducing the cash-based informal sector, it inadvertently caused liquidity crises and operational disruptions for cooperative banks that primarily serve local communities. Similarly, the COVID-19 pandemic led to significant economic downturns, impacting loan recovery rates and customer engagement, thereby threatening the financial stability of these institutions. Cooperative banks, with their unique structure and community-oriented approach, have been particularly vulnerable to these shocks. Despite their potential for resilience, there is limited understanding of how these dual crises have affected their operations, member trust, and overall viability. This study seeks to address this gap by investigating the cumulative impact of demonetization and the pandemic on the cooperative banking sector in Trivandrum, focusing on their operational challenges, adaptability, and future sustainability(**Source: Economic Review State Planning Board-2021.**

V Methodology of the Study

The present study covers a period from 1.04.2017 to 31.05.2021 and restricted to Trivandrum region. The data for the present study is secondary in nature. The data was collected from various publications of the State Planning Dept., published and unpublished reports, documents, articles, working papers, published and unpublished research dissertations and from the relevant websites.

1. Research Design

This study will adopt a mixed-methods approach, combining both qualitative and quantitative research methods to provide a comprehensive analysis of the effects of demonetization and the COVID-19 pandemic on the cooperative banking sector in Trivandrum District.

2. Sample Selection

The sample will consist of cooperative banks operating in Trivandrum District. A stratified sampling method will be used to ensure representation from various types of cooperative banks based on their size and services offered.

3. Data Collection Methods

Surveys: Structured questionnaires will be distributed to bank managers and staff to gather quantitative data on operational changes, financial performance, and customer engagement before and after demonetization and during the pandemic.

Interviews: Semi-structured interviews will be conducted with key stakeholders, including bank managers, customers, and industry experts, to gain qualitative insights into their experiences, challenges faced, and strategies adopted during these crises.

Secondary Data Analysis: Financial reports, balance sheets, and regulatory filings from cooperative banks will be analyzed to assess changes in liquidity, loan recovery rates, and overall financial health over the study period.

Sample Overview

Participants 100 employees and 50 customers from cooperative banks in Trivandrum District.

Data Collection Tool: A structured questionnaire utilizing a five-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree).

VI Limitations

The study acknowledges potential limitations, including the reliance on self-reported data, which may be subject to bias, and the focus on a specific geographic area, which may limit the generalizability of findings.

VII Statement of the Problem

Unlike other states in India, Kerala's population has a higher dependency on cooperative societies for meeting their financial and agricultural needs. When Reserve Bank of India has prohibited these societies from exchanging demonetized notes, the day to day operations were almost halted and created a crisis. There are a few studies on the demonetisation crisis in cooperative banking sector in Kerala but could not find any of them concentrating on the measures taken to overcome after demonetization. Hence this study is focusing on to measure the organizational responsiveness of cooperatives towards demonetization crisis.

VIII. Demonetization and Cooperative Banks

The impact of demonetization in terms of the cash deficit and its consequences has been particularly severe in Kerala also because of the distinct character of its banking sector, in which the cooperative sector and the Primary Cooperative Societies play a central role. Kerala is one of the most developed States in India in terms of the spread of banking and financial institutions. The financial system of Kerala has four distinct components, each characterized by specific strengths: scheduled commercial banks (SCBs), cooperative banks and agricultural credit societies, non-banking financial companies (NBFCs), and micro-finance institutions (MFIs). According to one estimate, there are at present about 14000 cooperative societies registered with the Registrar of Cooperative Societies in Kerala. Of these, 10503 societies function satisfactorily. They include apex institutions like the State Cooperative Bank, the State Agricultural and Rural Development Bank, 14 District Cooperative Banks, 60 Urban Banks, 48 Primary Agricultural and Rural Development Banks, and 1602 Primary Lending Societies. Around 60 per cent of all deposits are in the cooperatives in Kerala; the corresponding figure for India is less than 20 per cent. The average size of loan advanced by the commercial banks is about seven times the average size of loans advanced by PACS in Kerala, and sixteen times the average size of loan advanced by PACS at the all-India level. Overall, the cooperative banking sector is much more active and vibrant in Kerala than elsewhere. As a result over 70 per cent of the deposits in PACS in India come from Kerala; over 70 per cent of the nonagricultural loans and advances made in India are made in Kerala; and over 15 per cent of the agricultural loans and advances in India are disbursed in Kerala. The provision of a rate of 7 interests on deposits that exceeds the rate of interest offered by scheduled commercial banks is often offered as an explanation for the popularity of PACS among depositors. The facts that the great success of these institutions in Kerala is an indication of the trust these democratic and participatory institutions have earned for themselves. Thus the notifications issued by the Reserve Bank of India after November 8, particularly the notification of November 14 that have kept the cooperative banks and societies out of the note exchange process, were particularly damaging for Kerala. In the case of the PACS the implicit reasoning was that they were nonbanking entities under the Banking Regulation Act of 1949. But the restriction on exchange and accepting deposits of SBNs was also imposed on district cooperative banks, despite their being licensed under the Banking Regulation Act, being compliant in the Know Your Customer (KYC) regulations, and working with core banking solutions. These banks also face difficulties in converting reserves of demonetized notes into legal tender. Besides not being allowed to exchange specified bank notes, the access of PACS to currency was cut off, forcing these institutions – which are central to financial intermediation and inclusion in Kerala – to shut down their operations. As compared with an average outstanding deposit base of Rs 19.9 crore per branch and Rs 28,000 per individual member, each PACS was treated as an individual and its withdrawal limit set at Rs 24,000 a week. What was deliberately ignored was that it was not each PACS that was being denied access to cash, but that lakhs of members who held deposits in these institutions were being denied access to any of their money. There cannot be a single other instance of expropriation of the purchasing power of a population of this magnitude. These actions resulted in the closure of banking activities at the level of the PACS. They also targeted the credibility of the PACS, which had served as democratically run, participatory

financial institutions. Depositors in the PACS were being forced to migrate to the commercial banking sector with their money, thus undermining the role of some of the most successful examples of cooperative banking and financial inclusion. Representatives of the PACS met by the Committee stated that it was not true of all accounts that KYC norms were not met. In any case, this shortcoming could have been addressed directly, without causing extreme hardship and without threatening the viability of institutions with a record of financial inclusion unparalleled in the formal banking sector or in any other State.⁸ In view of the hardship caused by PACS account holders, the State Government issued two circulars (Circular no.: 46/2016, 47/2016). These permitted account holders to open zero balance, KYC-compliant accounts in district cooperative banks.

IX Data Analysis

Key Areas Assessed

1. Impact of Demonetization
2. Operational Challenges during the Pandemic
3. Adoption of Digital Banking
4. Customer Satisfaction
5. Trust in Cooperative Banks

Objective 1: To evaluate the Impact of Demonetization and covid pandemic in cooperative banks

Employees' Responses: Average Rating: 3.8

70% agreed (rating 4 or 5) that demonetization initially increased deposits.

60% felt it led to operational challenges.

Customers' Responses Average Rating: 3.5

65% agreed that they experienced disruptions in services.

Interpretation: Both employees and customers recognized the initial benefits of increased deposits, but there was a consensus on the operational difficulties that followed.

Objective 2: To examine the Operational Challenges during the Post demonetization and post Pandemic.

Employees' Responses: Average Rating: 4.2

80% agreed that the pandemic severely impacted loan processing and recovery.

Customers' Responses: Average Rating: 4.1

75% reported difficulties in accessing services during lockdowns.

Interpretation: The pandemic's impact was significantly felt by both groups, indicating widespread operational disruptions.

Objective 3: To evaluate the effectiveness of core banking system in cooperative banks in Kerala

Employees' Responses: Average Rating: 4.0

75% felt that the transition to digital banking was crucial for business continuity.

Customers' Responses: Average Rating: 4.3

80% agreed that they preferred digital channels during the pandemic.

Interpretation: There is a strong positive sentiment towards the adoption of digital banking

Objective 4: To analyze Customer Satisfaction of cooperative banks in Kerala during the time of post demonetization and pandemic economy

Employees' Responses-Average Rating: 3.7

65% believed that customer satisfaction decreased during the crises.

Customers Responses -Average Rating: 3.5

60% reported lower satisfaction due to service delays.

Interpretation: Both groups acknowledged a decline in customer satisfaction, likely due to operational challenges and service disruptions.

X Major Findings of study

1. Post demonetization affected the overall fixed deposit ratio and currency circulation of the cooperative banking sectors in Kerala
2. Post demonetization and pandemic has affected the lending process of cooperative banks
3. Middle man charge exorbitant rate of interest from farmers, small traders and artisans etc.
4. It affected the cottage industries and kudumbasree units in Kerala
5. There is a shortage of money circulation in the rural sectors.
6. Cooperative bank act as lenders of last resort for the poor people, after demonetization and pandemic these people could not meet their contingencies.
7. Impact of Demonetization and COVID-19 Pandemic Cooperative banks experienced a short-term increase in deposits post-demonetization, but this was followed by liquidity issues as withdrawals.
8. Operational Challenges: Key operational challenges included delays in loan processing and recovery, exacerbated by branch closures during the pandemic. Many cooperative banks struggled with inadequate digital infrastructure, which hindered their ability to adapt quickly to the new operating environment.
9. Effectiveness of Core Banking Systems: Banks that had implemented robust core banking systems were better equipped to manage digital transactions and customer service during the crises.
10. Customer Satisfaction: Customer satisfaction levels declined during the crises, primarily due to service delays and communication breakdowns. Despite these challenges, customers expressed a preference for digital banking solutions, indicating a shift in expectations for service delivery.

XI Suggestions

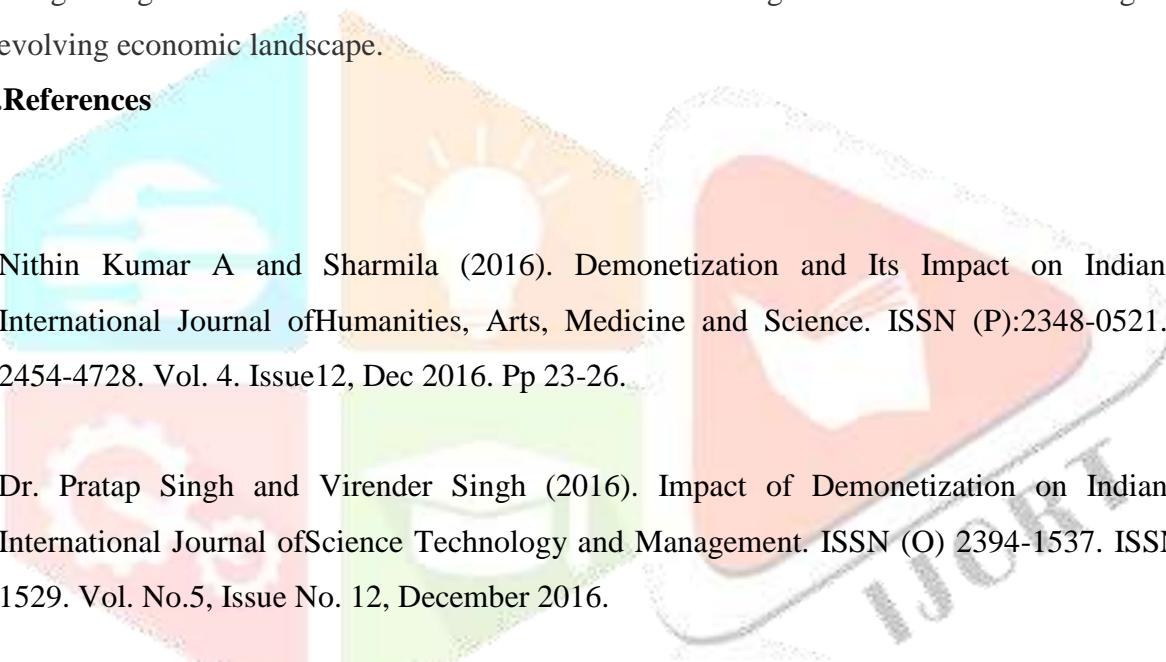
1. Enhance Digital Infrastructure: Cooperative banks should invest in upgrading their core banking systems and digital platforms to facilitate seamless online transactions and improve operational efficiency.
2. Staff Training and Development: Implement regular training programs for employees to improve their digital literacy and customer service skills, ensuring they can effectively assist customers during crises.

3. Proactive Communication Strategies: Develop clear communication strategies to keep customers informed about changes in services, loan recovery processes, and available support options.
4. Strengthen Risk Management Practices: Establish robust risk assessment and management frameworks to identify potential financial risks early and take preventive measures.
5. Foster Community Engagement: Reinforce community ties by actively engaging with members through feedback mechanisms, ensuring that their concerns and expectations are addressed.

XII Conclusion

The study highlights that cooperative banks in Kerala have faced significant challenges due to the dual impacts of demonetization and the COVID-19 pandemic. While these events have exposed vulnerabilities within the sector, they also present an opportunity for transformation. By investing in digital capabilities, enhancing customer engagement, and adopting proactive risk management strategies, cooperative banks can not only recover from these setbacks but also position themselves for sustainable growth in the future. Embracing change and innovation will be essential for enhancing resilience and maintaining member trust in an evolving economic landscape.

XIII .References



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