
HomeEconomy **Demonetisation drive hits cooperative banks in Kerala**

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Demonetisation has paralysed the three-tier cooperative banking system in Kerala with thousands of depositors left in the lurch.

By: **Rajesh Ravi** | Kochi | Published: November 17, 2016 6:29 AM

Demonetisation has paralysed the three-tier cooperative banking system in Kerala with thousands of depositors left in the lurch. The cooperative banking sector, with 1,642 primary agricultural credit societies, provides credit and deposit facilities to nearly one crore people in the state. But with **RBI** not allowing them to exchange the demonetised R500 and R1,000 notes with their customers, or receive fresh cash from the central bank in exchange of its own reserve, the system has virtually collapsed.

A cooperative bank in Kerala has approached the high court against the scheme of the Central government, and on Wednesday, the sector held a strike to protest against the discrimination.

State minister of cooperation AC Moideen said the primary cooperative banks should be allowed to conduct transactions. Chief minister Pinarayi Vijayan has also requested the Central government that permission be granted to the district cooperative banks in the state to exchange the demonetised notes. Pointing out that the cooperative institutions were the backbone of the state's agriculture and retail sector, he said cooperative banks should also be allowed to withdraw enough funds from the banks to make the exchange process hassle-free.

The state unit of the **BJP** has been quite critical of the cooperative banking sector, claiming that most of them serve the purpose of hiding **black money** in bogus accounts. BJP's state general secretary AN Radhakrishnan told FE that in just three days, the service cooperative societies

and since the recruitment is not done at the bank level, chances of illegal dealings are more,” he said.

Another BJP general secretary in the state K Surendran claimed that R30,000 crore worth of black money had been deposited in the cooperative banks in the state and he urged the Union finance minister not to accept the demand of the Kerala government seeking exemption for the sector.

“It is true that some of the cooperative banks function like a washing machine laundering black money. Most of the credit societies are not digitised, not under core-banking and the audit is done by Nabard. If RBI was doing the audit, it would have put some fear into the banking personnel. Nabard is not a regulator,” a regional rural bank chairman told FE.

At present, the Banking Regulation Act that governs commercial banks does not fully apply on cooperative banks.

VK Prasad, a former banking professional and a CPI(M) member, claimed that the discrimination by the Union government is a move to kill the cooperative sector. “It is clearly a political move and they are creating an impression that everything is illegal in the sector. Things are different in Kerala unlike credit societies in Maharashtra and Gujarat, where there are a lot of illegal activities. The credit societies here have a good shareholder base which democratically elect the managing officials. They are transparent and most of them adhere to the banking regulations voluntarily,” he added.

Manoj Vasu, president of Kadungalloor Service Co-operative Bank, said the operations of his bank with more than 26,000 members have come to a standstill. He claimed his service bank adhered to all regulations of RBI. “We serve as a lifeline to two panchayats in Kochi. Our weekly credit disbursement stands at an average of R25 crore per week. We have core banking and several ATMs. Some of our customers with no other accounts are in distress as they have important functions like weddings and house constructions,” he added.

The cooperative banking system in Kerala is unique and it needs a special treatment, G Veerakumar, from the Department of Cooperative Management, Kerala Agricultural University, said. He said it is wrong to treat them badly as they are better than private banks in reaching out to the poor. “They have the financial strength to lend and do valuable service to agriculture and SME sector. The state economy depends a lot on the sector,” he said.