

A Study on Banking Habits of Rural People After Demonetization With Special Reference To Trivandrum District

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ABSTRACT

In India demonetization brings a lot of cash crisis like shortage of currency. Even the primary motto of demonetization is to prevent the illegal currency savings of people like black money, practically it is not succeeded as planned. It even affects the growth of the nation and even GDP rate of our country. Demonetization is the process of cancellation of existing currency by introducing new currency in the place of such cancelled currency. This paper constitutes how demonetization affects the savings habits and investment choices of people after demonetization. For the study both primary and secondary data are considered.

Keywords: Demonetization, Rural People, Banking Habits, Investment Avenues and Savings

INTRODUCTION

People have diverse behavior towards savings and inequalities in income levels. There are people who consider that money gained today must be used to meet current necessities and the forthcoming will care for itself. There is a prerequisite to save part of that earnings. Savings and investment play a major role in economic progress of any country and the primary objective of all government programmes has been to encourage savings and investment creation in the economy which is prime tool of economic development. So a large number of people and in the times of cash crisis, which awkwardly occurred due to a surprise decision of demonetization announced by the prime minister, those people were hit very seriously. All of sudden their earnings stopped, they couldn't trade with the old currency notes, people stopped employing daily wages laborers, as they were unable to remunerate them. It also disturbs their savings and investment practices. Thus this study concentrate on how demonetization affects the banking practices of rural people.

STATEMENT OF THE PROBLEM

Savings is placing money aside so that it is readily accessible for any unexpected financial requirements. People save by withholding from current consumption requirements as a security for emergencies and for accumulating their wealth. Most people on rural areas save in some form and in lesser amounts. Subsequently the demonetization came in to effect, rural people have

confronted the worst. Their remunerations for work were either rewarded in old currencies or not at all. If they remunerated currencies and still have older notes have the choice of dropping this money in their bank account, unless, that is, they don't have bank account. This study is focusing on whether the demonetization positively influenced savings and investment behaviors of rural people by compelling them to open bank accounts.

REVIEW OF LITERATURE

Sunnykutti Thomas and Rajesh m n on investment pattern of rural investors in Kerala under(NEP).(April 2009)evaluated in their study the immense and extreme fluctuations are to be found in investors actions and intentions of investors under current economic scenario. In that condition, rural investors in Kerala also agreed a new way of investment under the existing economic crisis.

Ramprasad .S and Dr. B.Karthikeyan , December (2013) on distinct investors' behavior towards particular investments, states that the majority of the investors are giving much significance for the element "safety". Likewise investment opportunities such as Bank deposits, LIC policies and Bullion has been chosen by the individual investors. Correspondingly the majority of the investors are occasionally estimating the performance of their investment possibilities.

The national council of applied economic research(NCAER) lead a survey of households(1964) entitled" attitude towards and motivations for savings" .the analysis enclosed a sample of 4650 household scattered over India.it offers a vision in to the approach towards and inspirations for savings of individuals.One of the significant results was that the investment in securities was favored by large income households.

Deaton Agnus (1997)emphasis that poor people want to save so that they are not ambitious to extremes when their earnings are for the time being low. To better save the poor it is significant for microfinance organizations to recognize how poor households deal with variations in their earnings. His book shows evidence from household survey to assist us recognizes the macroeconomics of savings, the relation between savings and economic progress. The investigations were made on the permitting two models of household consumption: the life cycle model and short term consumption smoothing model.

OBJECTIVES

- To know the banking habits of rural people after demonetization
- To find out the savings among rural people after demonetization
- To know the mode of investment in various investment avenues after demonetization

METHODOLOGY

RESEARCH DESIGN

The present study is analytical and descriptive in nature . Both primary and secondary data were used for this study.

DATA SOURCE

The primary data was collected from 50 respondents using judgmentalsampling method from Trivandrum district.. The data was collected using a structured questionnaire.Secondary data was collected from literature of related studies, books, articles, journals, bulletins, magazines and various websites, provided information for building the theoretical and conceptual frame work of the study.

SAMPLE SIZE

The primary data was collected from 50 respondents, from which 50 are people from from the rural areas of Trivandrum district.

TOOLS USED FOR DATA ANALYSIS

The collected primary data was entered, processed, classified, tabulated and analyzed by using Statistical Package for Social Science (SPSS). To analyze the data various statistical technique such as Mean, t test, etc are used. Results of analysis are presented mostly in the form of tables and Pie charts.

THEORETICAL FRAMEWORK

DEMONETIZATION

Demonetization is the action of shedding a currency of its position as legal tender. Demonetization is essential every time there is a variation of domestic currency. The old note part of currency must be discharged and substituted with a new currency unit. Demonetization of currency means termination of the particular currency from rotation and substituting it with a new currency.

DEMONETIZATION IN INDIA

On 8th November 2016, the Government of India declared the demonetization of all Rs500 (US\$7.40) and Rs1,000 (US\$15) banknotes of the Mahatma Gandhi Series. The government demanded that the action would restrict the shadow economy and crack down on the practice of illegal and fake cash to invest unlawful activity and terrorism. The unexpected nature of the declaration—and the persistent cash shortages in the weeks that shadowed—generated substantial disruption all over the economy, threatening economic output. The act was severely criticized as poorly planned and unfair, and was met with objections a, complaints, litigation, and strikes.

Prime Minister of India Narendra Modi declared the demonetization in anspontaneous live telecasted address at 20:00 Indian Standard Time (IST) on 8 November. In the declaration, Modi acknowledged that use of all Rs500 and Rs1000 banknotes of the Mahatma Gandhi Series would

be unenforceable past midnight, and proclaimed the issuance of new Rs500 and Rs2000 banknotes of the Mahatma Gandhi New Series in exchange for the old banknotes.

The BSE SENSEX and NIFTY 50 stock indices fell over 6 percent on the day after the declaration. In the days subsequent to the demonetization, the country confronted severe cash deficiencies with severe negative effects throughout the economy. People looking for to exchange their bank notes had to stand in long queues, and numerous deaths were linked due to the hurry to exchange cash. Primarily, the act gets support from several bankers as well as from some international commentators. It was heavily criticized by members of the opposition parties, leading to discussions in both houses of parliament and causing prearranged protests against the government in numerous places across India. The move is considered to have lowered the country's GDP and industrial production. As the cash deficiencies nurtured in the weeks subsequent to the move, the demonetization was seriously criticized by well-known economists and by world media.

Withdrawal limits

Cash withdrawals from bank accounts were limited to 10,000 per day and 20,000 per week per account from 10 to 13 November. This limit was enlarged to 24,000 per week from 14 November 2016. A daily limit on withdrawals from ATMs was also levied changing from Rs2,000 per day till 14 November, and Rs2,500 per day till 31 December. This limit was increased to Rs4,500 per day from January 1, and again to 10,000 from January 16, 2017.

IMPACTS

Banking

In the first four days after the declaration of the phase, around 3 trillion (US\$45 billion) in the practice of old 500 and 1,000 banknotes had been deposited in the banking arrangement and about 500 billion (US\$7.4 billion) had been allotted via withdrawals from bank accounts, ATMs as well as exchanges over the bank counters. Within these four days, the banking arrangement has fingered about 180 million (18 crore) dealings. A spike in the practice of debit card and credit card post demonetization was also informed.

Cash shortage

The shortage of cash owing to demonetization directed to conflicts, and most people having old banknotes confronted problems in swapping them due to limitless lines outside banks and ATMs through India, which became a daily routine for masses of people to come deposit or interchange the 500 and 1000 banknotes since 9 November ATMs were running out of cash after a few hours of being functional, and around half the ATMs in the country were non-functional. Sporadic violence was informed in New Delhi, but there were no news of any serious injury, people attacked bank locations and ATMs.

Agriculture

The demonetization directed to inaccessibility of cash to pay for food products. The decrease in demand that arose in turn directed to a fluctuations in the prices of harvests. Farmers were incapable to get well even the expenses of transportation from their grounds to the marketplace from the fallen prices offered. The prices fallen as low as 50 paise per kilo for tomatoes and onions. This enforced the farmers across the country to dump their products in anxiety. Some farmers resorted to burying unsold vegetables. Agricultural harvest such as vegetables, foodgrains, sugarcane, milk and eggs were put on roads.

Business

Through the second week subsequent to demonetization of 500 and 1,000 banknotes, cigarette sales towards India observed a fall of 30–40%, while E-commerce corporations saw up to a 30% deterioration in cash on delivery (COD) orders. Numerous e-commerce businesses welcomed the demonetization choice as an incentive to arise in digital payments. They trust that it would lead to a deterioration in COD returns which is estimated to simplify their expenses. The demand for point of sales (POS) or card swipe machines has greater than before. E-payment alternatives like PayTM and Instamojo Payment Gateway, PayUMoney has also seen an increase. Further it states that the debit card dealings increased by 108% and credit card dealings by 60% on 9 November 2016.

Rural people

Rural Indians, which is about 70 percent of Indian people, be influenced on cash. And so are daily wage workforces, whether rural and urban zones are their workstations. So a huge no. of persons rest on on cash money. And in the periods of cash crisis, which regrettably happened due to a disclosure judgment of Mr. Prime Minister, those persons were hit seriously. Unexpectedly their income stopped, they couldn't conduct transactions with the old currency notes, people stopped employing daily wage laborers, as they were incapable to make payment. Buying power of persons went down unexpectedly. Daily wage employees didn't have a chance to eat two times daily. The economic events of middle lower class persons practically stopped. A giant hit to them. And the greatest part is they were innocent, don't have any other way of income and they didn't have black money. But actually demonetization affects them.

ANALYSIS AND DISCUSSION

TABLE: 7.1
PERCENTAGE OF INCOME SAVE AFTER DEMONETIZATION

PERCENTAGE OF INCOME SAVE	NO OF RESPONDENTS	PERCENTAGE
0 - 10 %	27	54
10 - 20%	21	42
20 -30%	2	4

ABOVE 30%	0	0
TOTAL	50	100

Source: primary data

Table 7.1 shows that 54% (27) of respondents save 0 – 10% of their income and 42% (21) of the respondents save 10 – 20% of their income and the rest 4% (2) of the respondents save 20 – 30% of their income. From this analysis we can understand that income after demonetization also there is savings habits among rural people.

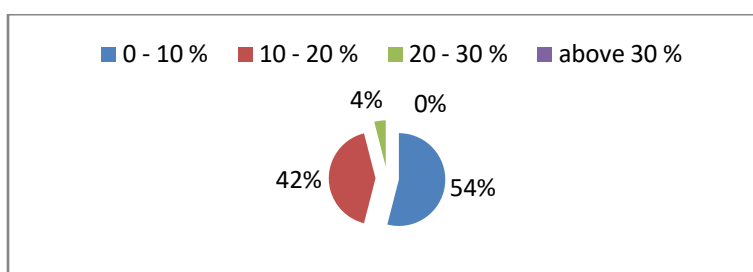


FIGURE: 7.1. PERCENTAGE OF INCOME SAVE AFTER DEMONETIZATION

TABLE 7.2.PRIMARY PURPOSE TO VISIT A BANK AFTER DEMONETIZATION

PRIMARY PURPOSE	RESPONDENT	PERCENTAGE
To Deposit	21	42
To Exchange Notes	25	50
To Transfer Fund	4	8
To Take Loan	-	-
To Get Dd	-	-
To Use A Locker	-	-
TOTAL	50	100

Source: primary data

Table 7.2 depicts that the primary purpose of 50% (25) of the respondents were to exchange old notes, 42% (21) of respondents visited bank to deposit and rest 8% (4) of respondents visited to transfer fund .From this we can understand that after demonetization the primary purpose of

majority of the rural people were to change the old currency in to a new one than any other services provided by the bank.

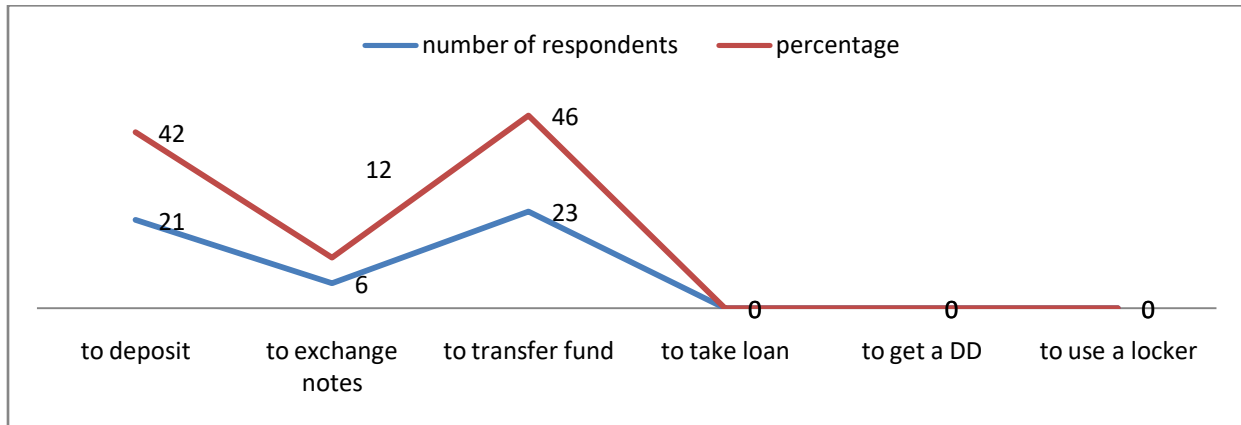


FIGURE 7.2 . PRIMARY PURPOSE TO VISIT A BANK AFTER DEMONETIZATION

TABLE 7.3. INVESTMENT AVENUES

Paired Samples Test

	Paired Differences					t	df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Pair 1 insurance as investment avenue before demonetization - insurance as investment avenue after demonetization	.080	.274	.039	.002	.158	2.064	49	.044

	mutual fund as investment avenue before								
Pair 2	demonetization - mutual fund as investment avenue after demonetization	.020	.247	.035	-.050	.090	.573	49	.569
	real estate as investment avenue before								
Pair 3	demonetization - real estate as investment avenue after demonetization	-.020	.319	.045	-.111	.071	-.444	49	.659
	bank as investment avenue before								
Pair 4	demonetization - bank as investment avenue after demonetization	.160	.370	.052	.055	.265	3.055	49	.004
	post office as investment avenue before								
Pair 5	demonetization - post office as investment avenue after demonetization	.260	.443	.063	.134	.386	4.149	49	.000

Pair 6	government securities as investment avenues before demonetization -	.000	.286	.040	-.081	.081	.000	49	1.000
	government securities as investment avenues after demonetization								
Pair 7	others as investment avenues before demonetization -	.140	.452	.064	.011	.269	2.189	49	.033
	others as investment avenues after demonetization								

Source: primary data

Table 7.3 depicts that the sig. value of various investment avenues opted by the rural people comparing before and after demonetization are, for insurance sector it is .044, mutual fund it is .569, real estate .0659, bank .004, post office .000, for government securities it is 1.000 and that of others is .33. From this analysis we can understand that since the sig. value for bank and post office is less than .05 we can conclude that after demonetization there is a rise in investment and they opted bank and post office as their investment avenues than any other avenues

FINDINGS OF THE STUDY

- 1) There is significant change happened on the level of awareness on various banking services among the rural people. This will enable them to increase their savings and investment habits.
- 2) There is significant change in the saving of income in bank account among rural people after demonetization.
- 3) From this analysis we can understand that in rural areas there are still people who are out of the purview of investment. Demonetization may result in increasing the investment habits of rural people as majority of the transactions are through bank accounts

- 4) Demonetization leads to increase in savings and investment habits among rural people.
- 5) After demonetization there is a rise in investment and they opted bank and post office as their investment avenues than any other avenues

SUGGESTIONS

- 1) Awareness campaigns should be organized by the banks with the motive of creating awareness among the rural household regarding the concept of saving and investment.
 - 2) To increase usage, financial products must designed with add - on features such as reminders, and basic literacy about the products features.
 - 3) Awareness campaigns should be conducted in order to make rural people aware about the cash less transaction systems and make use of it.
 - 4) Penetration of more investment avenues in the rural area.
 - 5) Provision of income generating schemes for the rural poor.
- Sound rural infrastructure for the rural masses

CONCLUSION

It can be inferred from the study that a large amount of cash in circulation had brought within the purview of the formal banking system by way of deposits. This is structurally positive for banks, as part of this cash gets deposited as current account and savings account deposits, reducing bank dependence on higher cost borrowings, hence they will pass the benefits to consumers who take loan from bank by reducing interest rates. With cash transaction facing a reduction, alternative forms of payment will see a surge in demand. Digital transaction systems, online transaction using E- banking, usage of plastic money (debit card and credit cards) got substantial increase in demand. This would eventually lead to strengthen such system and the infrastructure. The study reveals that majority of the rural people have less knowledge about the investment in industrial securities, but at the same time they prefer to make investments in banks, post office, insurance etc. Demonetization makes investors believe that cash is not the safest asset and there is little point in hoarding it. This will shift them from physical asset to financial assets where returns are also higher. Ultimately demonetization move will inculcate banking habits among the vast population, not yet familiar with the banking system

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