



## Unravelling the Urban Co-operative Bank Crisis in India examining the Socio-economic and Psychological Impact on Customers

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### Abstract

The Urban Co-operative Bank (UCB) crisis has emerged as a significant challenge in the financial landscape. This study aims to unravel the complexities of the crisis, focusing on its origins, progression, and the subsequent repercussions on both a socio-economic and psychological level for the bank's customers. The research employs a multi-dimensional approach to analyze the extent and nature of the crisis. Financial data, regulatory reports, and customer interviews will be utilized to assess the economic impact, including financial losses, disrupted transactions, and potential long-term financial consequences for the affected individuals. Utilizing psychological surveys and interviews, the research seeks to uncover the emotional and mental health implications of financial uncertainty, loss, and disrupted trust in financial institutions. Understanding the psychological dimensions is crucial for designing effective interventions and support mechanisms for affected individuals.

**Keywords:** Co-Operative Banks and Socio-economic Status.

### 1. Introduction

In the economic landscape of a country, banks exert significant influence, steering financial progress. Cooperative banks, integral to India's financial system since the early 20th century, have played a pivotal role in shaping the nation's monetary market. These institutions, collectively owned and democratically governed, function as sturdy pillars that provide members with enhanced benefits and services. Since childhood, we've embraced the mantra 'United we stand, divided we fall, a sentiment that encapsulates the importance of harmony and collaboration in fostering peace and progress within societies. This principle holds particularly true in trade or communal spaces, where coordination, trust, and mutual understanding are paramount. Such unity not only cultivates harmony but also propels socio-economic growth, serving as a cornerstone for a flourishing nation.

Intimately connected with various business communities, cooperative banks primarily operate within specific localities. Governed by the Reserve Bank of India and subject to the regulations outlined in the Cooperative Legislation Act of 1949 and the Banking Laws Act of 1955, these banks epitomize collaboration, with a dedicated focus on localized service delivery and community empowerment [7].

#### 1.1 Evolution of Co-operative Banks in India

Co-operatives have a longstanding history in our nation, with village communities uniting to pool financial resources for lending to farmers and landlords in need. This initiative, originating from local villages, addressed the financial requirements for agricultural activities. To formalize this concept, agricultural banks were established as early as 1858. Recognizing the



significance of financial support for agriculture, the Cooperative Credit Societies Act of 1904 was enacted, paving the way for the formation of around 5,300 cooperative societies and banks. The evolution continued with the passage of the Cooperative Societies Act of 1912, leading to the establishment of a three-tier structure comprising primary cooperative banks or rural cooperative banks, state-level cooperative banks, and district-level cooperative banks [8]. In the recent Constitutional amendments of 2011, Article 43B and a new Part IXB underscore the importance of cooperative societies. This is detailed under the Directive Principles of State Policy (DPSP) in Article 43B. The structure of co-operative financial institutions are designed by four important co-operative principle self-assist: as the co-operative bank financial institution are owned by its members and it is also governed by its members hence their goal is to set towards economic and social objectives of the society is democratic in nature they follow the principle of “one man one vote” irrespective of shares held by the members will help co-operative banks to hold controlling influence in the financial institution. The profits earned are spent on financial reserves and part is distributed among the co-operative members as per the prescribed limitations. They are well known for providing agricultural loans at very reasonable and minimum rates. The main advantage of co-operative banks is easy and accessible loans to middle income group. The cooperative banks have been divided into two important segments of urban co-operative and activities including poultry, milk cattle, farming, fishing, personal finance, hatchery, the urban co-operative banks focus mainly to finance different divisions of people for industries, self-employed, small scale industries and home finance. They cater the needs of mainly urban and semi-urban customers. In the current scenario co-operative credit structure, urban co-operative banks have a prominent role and position in our country. Urban co-operative banks were introduced and developed by businesses without the help of the government. These financial institutions have recorded history of voluntary democratic controlling and financial self-sufficiency with lower operational risk. In the current money market condition in the banking business they have played a very bright role in developing the economy. Currently there are 1,514 UCBs in India where accounting for 11% total credit to agriculture [9,10].

## 2. Review of Literature

The literature reviews mainly focus on,

- Women empowerment
- Socio-economic status
- Governance

### 2.1 Women Empowerment

India being the developing country has been promoting the self-reliance of women in terms of economic status. Co-operative is a key word coined against women being exposed various income generating sources, financial services, self-help groups, training and development techniques etc. Indian women in recent past have been trained on different skills sets so as to make themselves self-sustained. Skilling of women folk has seen a drastic change in their economic status, better livelihood, financial management skills, co-operative banks are the role players in empowering women through financial support at various levels like funding for training and skilling, seed money for small scale business, mentoring facilities, loans and deposits etc. The Self-Employed Women's Association (SEWA) stands as a prime example in India, actively addressing gender inequality by concentrating on organizing and empowering women in the informal sector. SEWA facilitates women's easy access to financial services, provides training opportunities, and enhances overall skills. The organization is dedicated to transforming the nation from a state of women experiencing low pay and exploitation to a more formalized setting, ultimately improving their livelihoods and fostering independence.

### 2.2 Socio-economic Status

India is a country which is in the list of developing countries where in this type of country income gap is very wide. Co-operative acts as a key strategy for to address socio-economic inequality. Co-operatives provide a platform for individuals and different types of communal people to pool resources and achieve common aims. It creates an opportunity/chance for marginalized societies. There are many cases which can include to see the impact of socio-economic. Amul co-operative (Gujarat) played an important role in serving the farmers by eliminating the middle man, creating direct connections with consumers, to get a proper price for the produce and enhancing their income and improving livelihoods. Urban cooperative societies as manifested by the National Slum Dwellers Federation in India are working towards combating poverty and to implement inclusive growth. It is a channel of co-operative among slum dwellers aims to increase living conditions within the slum areas. It helps the slum community people to pool their resources to their basic essentials like water, housing, sanitation and



electricity and work towards their rights and entitlements directly these NSDF are working towards to influence

increase the living conditions and participate in urban development.

**Table 1 The Literature Review of Recent Papers**

Authors	Title	Approach Methodology	Comments	Year	Journal
[1] Purnendu Basu et, al.	The role of cooperatives in Women empowerment : A critical review	Listed out with possible schemes to be adopted to enhance women empowerment	Complete details about women empowerment schemes different approaches followed by various authors in particular to co- operative bank and its role in development of women bank	2023	The Institute of Cost Accountants Of India
[2] Rajendra kumar et, al.	An empirical study of impact of financial inclusion on socio economic status of urban poor: with special reference to Delhi slums	Questionnaire were conducted on first degree low sector people	This paper speaks about the financial inclusion of co- operative societies to unprivileged section and measures the improvement by taking the samples in slum area and speaks about the benefits of changes in the system to make a banking availability services for illiterate and poor sections	2023	Academy of marketing studies journal
[3] Manayank gangwani et, al.	Suitability of forensic accounting in uncovering bank frauds in India	Analysis was done using questionnaire and pie chart benefits and advantages of forensic accounting by taking sample of selected customers	This paper gave insight knowledge about the role of any internal employees involving in fraudulent activities and implementation technology experts in the banking for IT and technology based work operations	2021	IIT(New delhi)
[4] Ashish Srivastava et.al,	Mobilization and management of capital by urban co- operative banks in India	Listed out futuristic approaches to the urban banks	This paper gives insight knowledge about the capital structure of urban co-operative banks and to limit the borrowed deposits and hybrid instruments and gave ideas about operational risk and market risk	2021	NIBM
[5] Tarsem lal et, al.	Measuring the impact of financial inclusion on rural development though co operative	Approach was conducted on 540 beneficiaries of co- operative banks through exploratory factor analysing both primary and secondary	Complete details about suggestions for urban co- operative banks regarding geographically disabled income of customers, door step delivery ATM networks	2021	Emerald insights

[6] nayaz pankajee	Socio - economic empowerment in rural India	Utilised descriptive and explanatory analysis to complete the goals of the issues	Concentrated on practical solutions to enhance the problem of socio - economic empowerment and to focus on micro finance to remove the hurdle of socio economic condition	2023	Cogent social science
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### 2.3 Governance

Corporate governance is not new to India as it was introduced at the time of British ruling in our nation. The governance deals with membership, registration, liabilities of members and disposal of profits rules for introduction and winding up of co-operative .the success of any business depends upon the governance of any nation if we take an example of co-operative working goals in all parts of the nation .it had a very good success in western states like Maharashtra, Gujarat ,Rajasthan where co-operative societies are mainly working on dairy farming ,housing ,small scale ,self-help group, eastern states ,in India we have better enterprises which has succeeded with huge prosperity under the guidance of co-operative governance like KRIBHCO,AMUL, IFFCO. In the year 2023 reserve bank of India imposed a penalty on various cooperative for breaching of various regulatory norms and regulations. The recent paper details been mentioned in Table 1.

### 3. Research Findings

The following are the key issues for urban cooperative banks

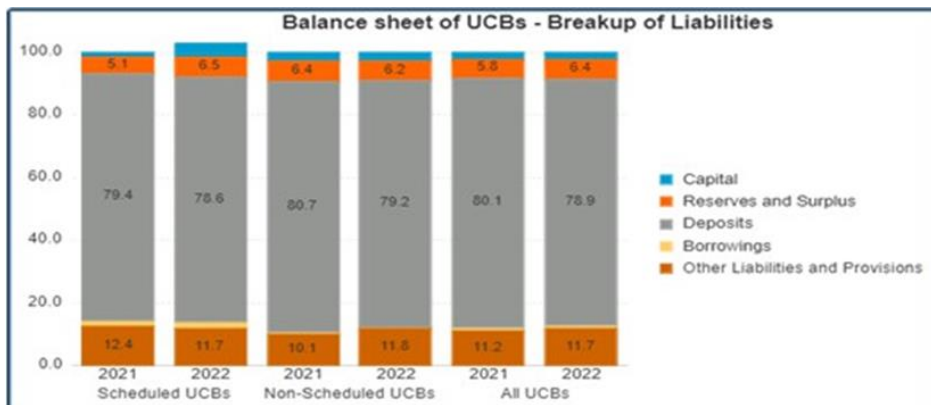
#### 3.1 Misappropriation in Cash Balance

Majority of the societies all managed and run by people who don't have proper knowledge about the financial implications .the staffs working in accounts department are not that much qualified ,knowledgeable and trained

employees .most of the co-operative society accounts are not computerized and still there are using books of accounts because of this they aren't able to reconcile and not able to prepare MIS reports there are so many other reasons for misappropriation of cash balance like without proper collateral and securities they are providing loans to most of the depositors in co-operative banks are retired persons since in co-operative banks provide high rate of interest they leave this deposits for longer period they create loans from these deposits without bringing to their notice, adjusting interest amount to the principal amount outstanding ,overvaluation of mortgage assets are various reasons for failure of proper cash management.

#### 3.2 Improve Efficiency and Competitiveness

Urban cooperative banks follow a system of accepting deposits from public but restrict to provide loan to only member. this is what India co- operative banks are following in which foreign banks are not in practice of this system this system will not strengthen co-operative banks they are restricting their business potential and there lending is becoming uncompetitive making the borrower to contribute to the bank's capital. It is high time to treat co-operation as a form of business it would ensure a true, open, voluntary, democratic and committed membership. The Figure 1 shows the difference in deposits which has reduced 3% from 2021 -2022.



**Figure 1** Balance sheet of UCBs- Breakup of Liabilities for 2021 and 2022



### 3.3 Implementation of Business Model

In a true sense of co-operation, co-operative should engage with their members and clients with different such as business, education, welfare measure and services this indirectly helps the bank to earn commission for the bank but also aids customers to get expert advice and support for their business under a single roof, it creates economic prosperity and social cohesion.

### 3.4 Operations and Geographical Character

The majority of the UCBS huge mass and owing their small asset size defeat to work efficiently and their cost-income ratio remains on a higher side. the average cost income ratio of co-operative banks is 66% which is near 10% higher as compared to commercial banks in order to make improvement in this concern the co-operative banks should stop lending only to their local areas it should start connect with world in order to expand their business when this concept has been implemented the co-operative bank can enjoy economies of scale benefit and indirectly helps to develop our nation.

### 3.5 NPA Provisions

Many cooperative societies fail to adequately address provisions for non-performing assets (NPAs), thereby adversely affecting the operations of urban cooperative societies. Despite periodic guidelines issued by the Department of Cooperative Audit, cooperative banks often do not take these directives seriously. As of August 5th, 2023, the Governor of the RBI announced a reduction in the gross NPA ratio of Urban Cooperative Banks (UCBs) to 8.7%.

### 3.6 Misuse of Funds in Suspense Account

A significant portion of receipts received by cooperative banks lacks clear sources and is recorded in suspense accounts. Unfortunately, many urban cooperative banks exploit these funds without proper acknowledgment.

### 3.7 Loans and Interest Waiver Misuse

These banks frequently deviate from established procedures when granting waivers for loans and interest, even in genuinely exceptional cases. The board's tendency to indiscriminately waive off recovered cases contributes to biased practices in selecting cases for loan waivers.

### 3.8 Duality Control

The dual control system, with the RBI overseeing banking aspects and the state and central governments regulating administrative aspects, presents challenges. Addressing this issue could involve empowering the RBI further in administrative matters through constitutional

amendments, thereby reducing the complexities associated with duality control.

### Conclusion

In conclusion, the urban co-operative bank crisis in India has far-reaching implications, not only in the financial domain but also in the socio-economic and psychological well-being of its customers. The crisis has underscored systemic weaknesses in the banking sector, leading to a loss of trust and confidence among customers. The crisis has left many customers grappling with financial insecurity, as their hard-earned savings are at risk. The collapse of these banks has disrupted the economic stability of individuals and businesses, leading to a ripple effect on the broader community. Small businesses that relied on these banks for financial support may face challenges in sustaining their operations, potentially leading to job losses and a decline in overall economic productivity [11]. The betrayal of trust in financial institutions can induce stress, anxiety, and a sense of helplessness. Many customers may experience a loss of faith in the financial system, which can have long-lasting effects on their financial decision-making and risk-taking behavior. The psychological toll extends beyond individuals to communities, as the erosion of trust can hinder economic growth and social cohesion. Addressing the urban co-operative bank crisis requires a comprehensive approach involving regulatory reforms, enhanced oversight mechanisms, and a commitment to rebuilding trust. Safeguarding the interests of depositors and implementing measures to prevent such crises in the future are imperative. Additionally, efforts should be made to provide psychological support and financial education to those affected, helping them navigate the aftermath of the crisis and rebuild their confidence in the banking system [12, 13].

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