

It is Very Much the Time to Close Cooperative Banks: An Analysis

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Abstract

Ah, cooperative banks—the financial wonderlands where members are also the decision-makers, holding onto their hopes and dreams (and sometimes their money) amidst a backdrop of regulatory chaos and startling fraud. This document reveals that these noble institutions, governed by democratic principles, have turned into breeding grounds for loan scams and embezzlement, with criminal masterminds fabricating loans like it's a DIY Pinterest project. And don't forget the regulatory circus: dual oversight, strict RBI regulations, and a government more concerned about appearances than depositor trust. Estimates of lost funds leap higher than political campaigns every scandal season, creating a delightful irony where financial inclusion meets financial exclusion. But fear not—closed banks like the New India Cooperative can always rely on the age-old remedy of finger-pointing while depositors are left to suffer. Welcome to the chaotic world of cooperative banking, where trust is evidently optional!

Keywords: Cooperative banks, Loan fraud, misappropriation, anti-money laundering monitoring, risk- focussed strategy.

Introduction

Today's newspaper reported on a Rs. 112 million fraud FIR filed against the chair of Satara Cooperative Bank and fifty others. Cooperative banks offer a variety of financial services, including savings accounts, personal and corporate loans, and other financial goods. They are crucial for financial inclusion by offering services to individuals and small businesses that might lack access to conventional banks, particularly in rural and farming regions. Typically, members choose a board of directors to manage the bank's activities. They are regulated by specific legislation, including India's Cooperative Societies Acts, along with banking regulations. In numerous areas, they function under a dual regulatory system, with both banking and cooperative society regulators overseeing their activities.

In some cases, they operate under a dual regulatory framework, with both banking and cooperative society regulators regulating their activities. In India, cooperative banks are divided into three types: state cooperative banks, district central cooperative banks, and urban cooperative banks. Examples comprise the Saraswat Co-operative Bank, Cosmos Co-operative Bank, Shamrao Vithal Co-operative Bank, alongside state-level entities such as the Andhra Pradesh State Co-operative Bank and the Delhi State Cooperative Bank. Primary Agricultural Credit Societies (PACS) act as the basic cooperative societies. State Cooperative Banks serve as the primary cooperative banks at the state level, offering financial assistance to the cooperative movement in the state.

Central district cooperative banks function at the district level and provide loans to primary agricultural cooperatives within their operational area. Urban cooperative banks serve the financial requirements of urban and semi-urban regions, offering a variety of banking services to individuals and small enterprises.

By August 2025, India possesses approximately 1,457 urban cooperative banks (UCBs), 34 state cooperative banks, and 351 district central cooperative banks. These numbers are continually evolving, with a recent update from the National Cooperative Database showing 1,465 urban cooperative banks and 351 district central cooperative banks as of October 2025. In India, cooperative banks are established under the Cooperative Societies Act applicable to their specific states or the Multi-State Cooperative Societies Act. They must adhere to the guidelines set by the Reserve Bank of India (RBI) and the National Bank for Agricultural and Rural Development (NABARD), and they are required to obtain a license to engage in banking operations as per the Banking Regulation Act of 1949. Cooperative banks are regulated by the RBI and NABARD, based on the type of bank involved. The RBI oversees UCBs according to the Banking Regulation Act of 1949, while NABARD regulates and monitors State Cooperative Banks and District Central Cooperative Banks. The RBI provides guidelines, suggestions, and circulars. The RBI conducts regular inspections and NABARD performs frequent inspections to verify adherence to RBI guidelines and regulations.

Literature Review

Co-operative Banks in India 2010, Amit Basak , New Century Publications, India.

While significantly smaller than commercial banks, both urban and rural co-operative banks play a crucial role in India's financial framework. They possess an extensive branch network and can connect with people in distant areas. They have historically been essential in fostering banking practices in low- and middle-income families, while also improving the rural credit distribution system. Urban co-operative banks (UCBs), also known as primary cooperative banks, are critical to satisfying India's expanding credit demand in cities and semi-urban areas. UCBs use assets from middle- and lower-income families to provide loans to small borrowers, including society's most vulnerable members. The Reserve Bank of India regulates and monitors scheduled UCBs. This book focuses on India's UCBs and provides a complete explanation of how co-operative credit institutions operate, as well as current reforms. It offers a case study on how UCBs function in the Indian state of West Bengal. [1]

Co-operative Banks in India & Select Countries, 2014, S Nakkiran , New Century Publications. In a market-oriented economy, contract conditions are usually weighted in favour of wealthy individuals. Those in control of scarce resources are free to negotiate with those who require such resources but are ill-equipped to contend for their acquisition. Cooperatives are institutional bodies that contribute to the development of social cohesion. They have historically been essential in fostering banking practices in low- and middle-income families, while also improving the rural credit distribution system. Urban co-operative banks (UCBs), also known as primary cooperative banks, are critical to satisfying India's expanding credit demand in cities and semi-urban areas. UCBs use assets from middle- and lower-income families to provide loans to small borrowers, including society's most vulnerable members. The Reserve Bank of India regulates and monitors scheduled UCBs. This book focuses on India's UCBs and provides a complete explanation of how co-operative credit institutions operate, as well as current reforms. It offers a case study on how UCBs function in the Indian state of West Bengal. [17]

Cooperative banking in India, S Thirunarayan, 2019, Asia Publishing House. Cooperative banks are seen as the foundation of the cooperative credit system since they handle the financing of all cooperative activities in the district and communicate with NABARD, RBI, the state government, and the Apex Bank to guarantee effective policy implementation. The financial and developmental function of the district's Central Cooperative Bank is vital for the advancement and growth of credit, industrial, processing, marketing, consumer, dairy, handloom, housing, fisheries, and various other cooperatives. The book *Central Cooperative Banks: Strength and Weakness* examines the primary functions of Central Cooperative Banks, focusing on Kanpur and South Arcot. The recommendations for resolving deficiencies, as well as the techniques for reinforcing banks nationally. *Urban Cooperative Banks in India at Crossroads*, 2024, Ramu Nagarajapillai, Elia Books, Moldova.

The cooperative credit movement in India is a complex network that benefits the highest number of people globally. The urban sector, the three-tiered short-term rural sector, and credit societies collectively support around 267 to 390 million individuals. Urban Cooperative Banks (UCBs) represent a distinctive category of institution. They are registered according to the Cooperative Societies Act of the pertinent state, which empowers the registrar of cooperative societies to both register and dissolve the societies. Simultaneously, these banks evolved into entire banking systems only after the Banking Regulation Act of 1949 was enlarged on March 1, 1966, giving the Reserve Bank of India (RBI) regulatory responsibilities such as issuing licenses and supervising banking activities. This leads to joint oversight of UCBs by both state and central authorities. In India, 'cooperation' is a matter for the state, whereas 'banking' falls under the federal government. Another concern is the inconsistency in regulations overseeing the management and operations of cooperative institutions. [18] *Principles and Practice of Co-operative Banking in India*, Bishwa Nath Choubey, Asia Publishing House, 1968. *Textbook on the principles and application of rural credit cooperatives in India* — includes historical background of cooperative banking, housing cooperatives, marketing cooperatives, financial and management challenges, legal aspects, etc. [2]

Methods

Considering the different aspects of human involvement in a leader's and his team's development, descriptive research has been applied. Here, without using faulty logic, the traits of such a relationship are recognized and examined from the perspective of widening the gap. The following elements will be the subject of analysis:

- a) Cooperative Bank is also connected to the pervasive problems of financial mismanagement and fraud that have plagued Kerala's cooperative sector.
- b) There is a strong suspicion that government personnel are involved in such scheme
- c) Public confidence in the cooperative sector overall has been negatively harmed by the scams.
- d) Although the government has stated that it is developing a plan to guarantee deposits, it has not yet carried out its pledge in its entirety.
- e) Implement strong consumer authentication methods to prevent the creation of fake and mule accounts.
- f) Failure to comply with regulations may result in monetary fines and increased scrutiny.
- g) Banks must swiftly examine and respond to employee-related fraud cases.
- h) To prevent fraud in cooperative banks, implement a multi-layered strategy that combines strong internal controls, cutting-edge technology, ongoing personal training and great consumer awareness.
- i) A risk-oriented strategy is critical for fraud prevention because it allows banks and financial institutions to tailor their protective measures based on the risk level associated with transactions and clients.

In descriptive research, the progression does not address questions regarding how/why/when the traits occurred, but rather describes the aspects of the system under investigation and suggests a next step. [16]

Analysis

In India, cooperative banks are composed under the Cooperative Societies Act germane to their particular states or the Multi-State Cooperative Societies Act. They are required to comply with the rules established by the Reserve Bank of India (RBI) and NABARD, and they must secure a license to conduct banking activities according to the Banking Regulation Act of 1949. Cooperative banks are governed by the Reserve Bank of India (RBI) or the National Bank for Agricultural and Rural Development (NABARD), depending on their registration. [1] The RBI supervises Urban Cooperative Banks (UCBs) under the Banking Regulation Act of 1949 (similar to cooperative banks), whereas NABARD regulates and oversees State Cooperative Banks (StCBs) and District Central Cooperative Banks (DCCBs). The RBI's Urban Banks Department supervises and regulates UCBs. The RBI issues guidelines, recommendations, and circulars to UCBs, StCBs, and DCCBs in accordance with the Banking Regulation Act of 1949 (concerning cooperative banks). The RBI performs perpetual audits to ascertain that UCBs comply with the regulations. NABARD supervises and controls StCBs and DCCBs, which are likewise regulated by the RBI under the Banking Regulation Act of 1949. NABARD conducts customary inspections to ascertain compliance with RBI guidelines and regulations. [2]

The diversion of exceptionally huge sums of money by bank personnel who make up loans or give loans to family members without carrying out the required due diligence is known as loan fraud and misappropriation. Scammers might establish fake accounts or engage in deceitful practices to unlawfully acquire funds from banks. The Enforcement Directorate uncovered a significant scam and financial detriment to the public by investigating anomalies at the Karuvannur Service Cooperative Bank. Following an impressive fraud investigation that exposed suspected corruption through loans made to their family members at the Mylapra Service Cooperative Bank, properties belonging to previous officials were seized. This Kandala Service is located in Thiruvananthapuram. The pervasive difficulties of financial mismanagement and fraud that have plagued Kerala's cooperative economy are also tied to the Cooperative Bank. Karuvannur Cooperative Bank case, which is being investigated by the Enforcement Directorate for deceptive loan practices and possible participation of government officials. The ED has issued a final charge sheet in this matter, sparking political debate. Other cases of financial mismanagement and fraud have been recorded throughout the state, resulting in distressed depositors and investigations by top institutions such as the Kerala Lok Ayukta and the High Court. [3]



Depositors who are unable to access their funds have contacted the Kerala Lok Ayukta for assistance. They have lost money as a result of cooperative bank fraud, with the sums ranging according to the circumstances. The Karuvannur Service Cooperative Bank alone lost almost ₹300 crore, while other banks in the Thrissur area reported frauds surpassing ₹500 crore. Other examples include a ₹180 crore scam at one Cooperative Bank and the Thiruvananthapuram District Unemployed Social Welfare Cooperative Society, with approximately 300 depositors losing more than ₹13 crore. The total loss is enormous, affecting numerous depositors as well as public trust in the cooperative sector. The suspected involvement of government figures in numerous schemes has grown. The alleged involvement of political leaders in these scams has sparked widespread discussion and political controversy in the state. The scams have significantly eroded public faith in the cooperative industry as a whole.

Failed cooperative banks in India include the recent collapse of the New India Cooperative Bank, as well as past examples such as the Punjab & Maharashtra (PMC) Bank fraud and the CKP Cooperative Bank, among many more. According to the RBI and other regulatory bodies, bank failures are typically driven by poor governance, financial irregularities, fraud, and a lack of capital, necessitating regulatory actions such as license cancellations and winding-up procedures to preserve deposits. The recent demise of New India Cooperative Bank highlighted issues of fraud and incompetence, leaving depositors stranded. PMC Bank is involved in a major scam in which officials cooperated with developers to conceal substandard loans, resulting in withdrawal restrictions and depositor dissatisfaction. CKP Cooperative Bank's license was cancelled due to significant financial mismanagement. Mapusa Urban Co-op Bank folded in 2021 as a result of financial irregularities and unsustainable loans despite many RBI warnings. Banaras Mercantile Cooperative Bank: The RBI cancelled its license in 2024 for failing to repay depositors. City Co-operative Bank lost its license in 2024 due to its inability to maintain financial viability. Jai Prakash Narayan Nagari Sahakari Bank Ltd.'s license was terminated in 2024 due to insufficient capital. The recent failure of New India Cooperative Bank disclosed cases of fraud and ineptitude, leaving depositors stuck. A major underlying issue in many failures, often leading to political corruption, fraud, and ineptitude. Collusion with developers to conceal weak loans, as seen in the PMC Bank case, or other instances of major financial mismanagement and financial instability.

Weak profitability, insufficient capital, and unsustainable loan policies can contribute to a bank's failure to continue operations and regulatory noncompliance. Banks that fail to comply with regulatory requirements or upload critical data, such as KYC information, may face penalties or have their licenses withdrawn. Cooperative banks that fail to meet financial and regulatory standards frequently have their licenses withdrawn by the RBI. As soon as a license is revoked, state authorities must begin winding up the bank and appointing liquidators to oversee its operations. [4]

Depositors who have trusted the bank with their money regularly face extreme hardship and financial difficulties as a result of bank collapses. The RBI has put in place frameworks like the Prompt Corrective Action (PCA) framework to oversee and direct financially unstable cooperative banks, particularly those classified as Tier II, III, and IV. Even smaller banks that are not covered by the PCA face additional scrutiny in order to maintain financial stability and deal with new challenges. The ED is probing various cooperative banks for financial irregularities and has seized assets related to the fraud. The criminal branch is investigating specific cases. The High Court is overseeing certain aspects of the investigation and has issued warnings about the possibility of losing public trust in the cooperative sector. The government has claimed to be working on a deposit guarantee plan, although it has not yet been fully implemented as promised.

Depositors are drawn to Kerala's cooperative banks for their vital social and rural economic functions, which include reasonable loan rates and a vast network, particularly in rural areas. Despite recent troubles in some banks, the state government continues to assist the sector by insuring deposits and developing structures such as the deposit guarantee board to protect investors. Cooperative banks play a vital role in the rural economy by providing essential credit and financial services in areas where commercial banks may not exist. They offer loans, including personal, home, and business loans, on more flexible terms than traditional banks. Some cooperative banks play a vital role in extending loans to the poor and disenfranchised, who may not have the appropriate credit history. [5] The Kerala government has indicated that it will invest in cooperative organizations. The state government has changed its co-operative deposit guarantee plan to increase efficiency and protect depositors. The cooperative sector is typically described as having a foundation of trust and a dedication to societal benefit. Many are led by local leaders, instilling a strong sense of community control and responsibility. The sector may become politicized, and local political difficulties could jeopardize its stability. Some cooperative banks have faced financial difficulties, creating concerns and, in some cases, undermining public trust. Financial institutions combat fraud by implementing a variety of strong security measures, including cutting-edge technology such as AI and machine learning for real-time transaction monitoring, multi-factor authentication to verify clients, and demanding KYC procedures to validate customer identities.

Institutions also prioritize employee training to recognize and report suspicious behavior, as well as educating clients on the best security measures, such as not disclosing personal information and routinely monitoring their accounts. Use powerful algorithms to analyze large datasets, spot unusual trends in real time, and identify potentially fraudulent activities. Continuously monitor client behavior, internet sessions, IP addresses, and device registrations for anomalies. To create a more complete customer profile, augment data with real-time information from other sources, such as social networks. Utilize tools that can detect and prevent fraud by analyzing previous patterns and trends. Regularly train all employees, particularly those in customer-facing roles, on the latest fraud strategies, how to detect suspicious behavior, and corporate policies. Monitor for internal threats by providing employees with confidential hotlines to report suspicious activity and using analytics to investigate dormant accounts. Implement strong Know Your Customer standards and Anti-Money Laundering monitoring to ensure accurate customer identification and prevent unlawful activities. [6]

Banks are required to disclose fraud incidents to regulatory bodies (such as the RBI) and criminal enforcement within a specific time frame. Follow all applicable banking regulator rules and guidelines, or risk fines and reputational injury. Participate in industry cooperation and share information on fraud trends to better combat fraud, according to BANKiQ. The RBI provides several rules for preventing fraud in cooperative banks, including a thorough Master Direction on Fraud Management that includes reporting, governance, and early warning systems. Mandatory and prompt fraud reporting to the RBI and law enforcement, the establishment of a strong governance framework, the implementation of an Early Warning Signals (EWS) system for proactive detection, the accountability of employees, and the use of technology to combat cyber fraud, including the verification of the Mobile Number Revocation List, are all critical measures. The Board of Directors now has a larger role in overseeing fraud. Fraud must be reported to law enforcement authorities as soon as possible, according to regulations. To detect fraud more proactively, banks must implement an Early Warning Signals system. A vital internal audit function is required to ensure compliance. The rules emphasize employee accountability and provide processes for ensuring respect to the Principles of Natural Justice in cases of suspected fraud. There are specific timelines for designating an account fraudulent, which requires a review committee if the length exceeds 180 days. Cooperative banks are obligated to swiftly report to the RBI and LEAs of any suspected frauds, with a rigorous 14-day deadline from the time of discovery. Failure to comply with these standards carries certain consequences, including monetary fines and increased scrutiny. A senior officer should be assigned to manage the filing of all relevant fraud-related reports with the RBI. Banks must improve awareness of cybersecurity dangers and the institution's cyber resilience goals among consumers and employees. [7]

A risk-based strategy is critical for preventing fraud. This technique assesses the potential risks associated with various transactions and customer categories, allowing financial institutions to allocate resources wisely and conduct extensive examinations as needed. High-risk transactions, for example, may face increased scrutiny and oversight. Consistently upgrading security measures and keeping informed of new fraudulent methods are critical components of an effective fraud prevention strategy. By employing these measures, financial institutions can outperform fraudsters and maintain a secure financial system. Detection not only aids in the early detection of fraud, but it also helps to mitigate future financial losses and reputational harm. Timely and reliable fraud detection necessitates a thorough strategy. Continuous enhancement of detection systems, regular audits, and personnel training are all essential. Financial institutions that maintain a vigilant and adaptable detection framework can respond quickly to fraudulent activities while also strengthening their overall security posture. [8]

To decrease risks and protect operations, banks and financial institutions must implement comprehensive fraud prevention methods. A risk-oriented strategy is essential for fraud prevention because it enables banks and financial institutions to customize their safeguards based on the level of risk associated with transactions and consumers. By categorizing transactions depending on their risk profile, institutions can better allocate resources and impose enhanced oversight as needed. Transactions deemed high-risk, such as major fund transfers or unusual account activities, are subjected to stringent inspection and verification procedures to decrease the possibility of fraudulent activity. Financial institutions can use AI technology to examine transaction data in real time, uncovering complex patterns and instantly identifying abnormalities that may indicate fraudulent activity. These cutting-edge solutions provide a forward-thinking fraud prevention strategy, allowing businesses to remain ahead of developing fraud methods while safeguarding their resources with exceptional precision and effectiveness. Organizations can improve their ability to detect and prevent fraudulent activity by smoothly integrating these solutions. This complete technique enables firms to aggressively combat fraudulent behavior while protecting their clients' finances. Furthermore, merging fraud protection systems with transaction monitoring systems provides quick insights into transaction activity, allowing institutions to discover anomalies or deviations from normal behavior. By examining transaction data with client information, institutions can strengthen their fraud detection capabilities and respond quickly to questionable conduct. Financial institutions use transaction monitoring technology to detect suspicious activities in real time. [9][10]

Frauds Cases Reported by RBI Regulated Entities

Table: Number of frauds cases reported by RBI regulated entities

Sl. No.	Category	No. of cases	Amount involved Rs (Crores)
1	COMMERCIAL BANKS	169190	29910.12
2	NBFCs	935	154.78
3	UCBs	6345	1057.03
4	FIs	77	279.08
5	Total	176547	31401.01

Fraudsters are increasingly using generative AI to create authentic, deep-fake audio and video, allowing them to impersonate bank employees or customers. These sophisticated scams have resulted in financial losses, including a large incidence of a \$25 million fraud in Hong Kong. FINRA has warned that these AI-driven frauds might result in \$40 billion in fraud losses for the US financial sector by 2027. Criminals combine authentic and fabricated data to create synthetic identities, which are then used to open fraudulent accounts. This type of fraud is particularly difficult to detect and has emerged as one of the fastest-growing financial crimes in the United States, costing institutions billions of dollars each year. After discovering fraud, European financial institutions must use a regulated technique that meets EU criteria and local legislation. When a breach is discovered, they respond immediately to protect the consumer, which may include blocking the affected account or card. An internal fraud investigation team gathers all relevant information and evidence to establish the validity of the fraud claim. The organization contacts the affected customer to inform them of the fraud, authenticate the illegal transactions, and advise them on what steps to take. Management has been informed of the scam and the actions taken. The institution's Audit Committee may also receive updates on major fraud attempts or achievements. Financial institutions adhere to strict deadlines and procedures for notifying the appropriate authorities of fraud. According to PSD2, financial institutions are required to inform their national competent authority about fraudulent transactions, which is the appropriate supervisory authority in that nation. The report comprises statistical data based on a consistent methodology set by the European Banking Authority (EBA). In egregious cases, financial institutions will notify the police of fraud. This is especially true for offenses linked to organized crime, such as money laundering or corruption. National competent authorities provide the EBA and the European Central Bank with aggregated fraud figures. When a bank commits fraud, regulatory organizations take a number of steps to investigate the conduct, hold wrongdoers accountable, and protect depositors and investors. The purpose is to locate and seize assets before returning the funds to the victims, albeit this may take some time. In the event of severe fraud, the central bank may suspend the bank. This temporarily limits the bank's operations, such as customer withdrawals, in order to avoid further financial loss and protect the existing assets.

The connection between politicians and construction firms has led to the downfall of cooperatives in India through the illicit transfer of money, loan manipulation, and insufficient regulation.

Recent events in Mumbai and Kerala highlight the dilemma in which fraud and mismanagement hurt depositors and members. Political figures frequently use cooperative banks and groupings to strengthen their control and influence. They place loyalists in key positions, disregarding professional management and democratic principles. Political patronage ensures that societies function to promote the ruling party's objectives instead of their own. A typical strategy includes cooperative banks providing substantial, high-risk loans to construction firms and property developers with political connections. These loans often violate lending regulations and are sometimes approved without sufficient collateral. In the case of the Punjab and Maharashtra Co-operative (PMC) Bank, the management hid substantial loans granted to the insolvent developer HDIL. Corrupt officials of cooperatives and their political backers exploit the community's resources for their own gain. They drain funds and earnings into personal accounts or unlawful activities, making cooperatives bankrupt and incapable of repaying depositors. In certain cases, developers collaborate with banking officials to facilitate deceitful "subsidy programs," where the builder agrees to cover homebuyers' mortgage payments until ownership is transferred. When a contractor fails, the bank unjustly requests payments from struggling homebuyers, many of whom never obtain their property. The Supreme Court is presently overseeing a CBI probe into the builder-bank connection in the NCR area. Corruption flourishes due to weak oversight from state-level cooperative registrars and regulators. Even though they have the authority to investigate and dismantle corrupt organizations, these regulators frequently disregard the issue owing to political considerations. In Kerala, the High Court was informed by *amicus curiae* that insufficient supervision led to the failure of various cooperatives. Influential figures exploit collaborative frameworks to clean untraceable money and transform "black money" into legitimate assets through deceptive deposits and loans. [11][12][17]

Recommendations

To prevent fraud in a cooperative bank, implement a multifaceted strategy that combines strong internal controls, new technology, regular personnel training, and improved consumer awareness. Real-time transaction monitoring, robust identity verification, and the creation of comprehensive fraud protection policies are all critical elements. Banks must also be prepared to investigate suspicious activity, hold employees accountable, and report fraud to appropriate authorities. Utilize modern fraud detection and prevention technology, such as real-time transaction monitoring, AI-powered risk grading, and multi-factor authentication. To avoid fraudulent accounts and money mules, use strong identity verification during onboarding and throughout the customer lifecycle. [13] Develop and execute comprehensive fraud protection policies, conduct regular fraud risk assessments, and provide ongoing employee training on risks and prevention measures.

Employ internal auditors and conduct regular internal and external audits to assess the effectiveness of fraud risk management systems and to ensure accountability. Implement methods to detect potential fraud early, allowing for prompt corrective action. This includes setting up a board-level committee to oversee these projects. Hiring private investigators enables you to respond quickly to suspicious transactions. Develop a strategy for managing and reporting fraud to the appropriate authorities. To combat fraud in cooperative banks around the world, implement strong internal controls, conduct regular risk assessments and audits, and improve customer verification through strong Know Your Customer (KYC) policies. [1] [14]

Banks should also use advanced analytics to watch transactions in real time, profile customer behavior, and educate employees and customers about emerging dangers such as phishing and social engineering. Internal and technological measures: Set up strict client authentication methods to prevent the formation of fake and mule accounts. To detect suspicious behaviors quickly, use automated systems for real-time transaction monitoring, behavioral analysis, and anomaly detection. Create a fraud risk management framework that contains established policies, processes, and controls to ensure the separation of responsibility for financial transactions. Conduct routine internal and external audits to assess the effectiveness of fraud controls and ensure compliance with requirements. [15]

Once the fraud has been uncovered, the bank must notify the central bank within a set time frame. The central bank may also alert other financial institutions about fraudulent techniques. To prevent further illegal activity and to properly monitor the bank's resources, regulators have the right to remove the current board and appoint an impartial administrator or committee. Central banks collaborate with financial crime institutions such as the serious the Fraud Investigation Office and the Enforcement Directorate will investigate serious fraud cases. These organizations undertake forensic audits to monitor the flow of funds and detect unlawful gains. The ED is authorized to provisionally attach and take the assets and property of the accused persons and businesses implicated in the fraud. This is a vital step in recovering the proceeds of the offense. Banks are required to categorize fraud based on the nature of the crime and report it to the central bank in a prescribed format. This reporting is mandatory for all fraud instances that surpass a particular financial threshold. Banks are required to file a FIR with the local police or a specific body, such as the EOW. For major cases, this involves central agencies like the CBI. Once the investigation and judicial processes are complete, the confiscated and attached assets of the fraudsters are sold in accordance with court orders. [4][17]

The proceeds from the sale are then distributed to all confirmed victims on a pro rata basis. In many countries, deposit insurance policies guarantee a certain amount of a depositor's money if a bank fails. If the bank fails, this strategy will provide a safety net for small investors.

Clients who have suffered losses due to the bank's fraud or carelessness can file a complaint with the Banking Ombudsperson. These programs offer a prompt, free, and unbiased resolution to disputes.

The Reserve Bank of India (RBI) implements a variety of regulatory, supervisory, and enforcement measures to combat financial crime and ensure the stability of cooperative banks in Kerala. It develops elaborate processes for mitigating fraud risk, conducts evaluations, imposes penalties for infractions, and, in severe cases, restricts the banks' activity. The RBI has developed a thorough framework for cooperative banks to identify, monitor, and report fraudulent activity. Cooperative banks should have a clear approach to fraud risk management, specifying the roles of the board and top management. [16]

Cooperative banks with deposits above ₹1000 crore must set up an EWS to detect fraudulent activities quickly. Banks must notify the RBI about fraud cases within 14 days of their classification. The regulations require a prompt determination of staff guilt in every fraud event. Before branding a person as fraudulent, banks must deliver a show-cause notice and provide them with the opportunity to react. The RBI imposes monetary punishment on cooperative banks that break regulations, regardless of whether the violations happened prior to the amalgamation of the organizations. In October 2022, the RBI fined the Kerala State Co-operative Bank ₹48 lakh for exceeding gold lending restrictions and holding shares in other cooperative societies. The breaches were recorded in a NABARD inspection report. To protect depositors, the RBI can impose restrictions on banks that are in financial distress. Because of its deteriorating financial condition, the RBI imposed restrictions on this bank in 2019, including the prohibition of new loans and the acceptance of new deposits. Historically, cooperative banks were overseen by both the state Registrar of Cooperative Societies (RCS) and the Reserve Bank. This created uncertainty and damaged the government. The Banking Regulation (Amendment) Act of 2020 extended the RBI's power over urban cooperative banks. A major lending scam at Karuvannur Bank exposed vulnerabilities in Kerala's cooperative industry. The Enforcement Directorate (ED) looked into the scheme and identified a political connection. It is clear that RCS, RBI, and NABARD have been absolving themselves of their obligations in these scams, despite the fact that this is an obvious example of incompetence on the part of these agencies, and the first move should be to apprehend these incompetent officers and personnel, interrogate them, and determine liability. Ordinary paid employees' life savings have been cheated. For occupying positions in the management of these cooperative banks, certain basic criteria other than political affiliations should be made mandatory. The board of directors and the credit committee should be represented by a full-time NABARD official who will be responsible for all cases of loan disbursements. [18]

When financial fraud is found, the banks must employ a multistep process that involves internal investigations, automatic and manual transaction analysis, customer account security, and reporting by

appropriate authorities. Collecting proof, possibly restricting transactions, and, if fraud is verified, submitting essential paperwork to authorities, such as a Suspicious Activity Report (SAR), as well as contacting law enforcement for criminal investigations, are all necessary procedures. The process often begins with a consumer complaint or a tip from an automated fraud detection system. The investigators then collect evidence, such as transaction logs, timestamps, IP addresses, and account information. Systems rapidly compare user and transaction data to expected patterns. A suspicious transaction can be automatically rejected or flagged for manual review by an analyst to ensure its legitimacy.

Detecting and correcting fraud after it has occurred. Both policies are critical, but they serve distinct purposes in protecting financial institutions. Given the recent surge in internet scam operations that cheat people out of billions of dollars, cooperative banks must develop effective fraud detection and prevention procedures. According to the United States Institute of Peace's Transnational Crime in Southeast Asia research, scam syndicates steal money worth US\$64 billion every year in Southeast Asia, affecting millions of victims worldwide. Fraud prevention is taking proactive steps to prevent deceitful behavior from occurring in advance. This includes implementing strong security measures, developing stringent internal procedures, and frequently checking for potential vulnerabilities.

Conclusion

A cooperative bank is a financial company owned by its members and managed democratically, providing banking services primarily to members who are also clients, with the goal of meeting their financial needs and improving their collective welfare. Unlike traditional banks, these institutions operate on cooperative principles, valuing ideals such as "one member, one vote" in decision-making and promoting community and mutual help over profit growth. Cooperative banks are distinguished by cooperative ownership, democratic administration, a member-centred approach, collective support, and focused community involvement. The bank's clients also own it, resulting in a cooperative organization. Members engage equally in the bank's decision-making process, which is often accomplished through the election of board members. The primary goal is to meet the financial requirements of its members and the broader community. They rely on self-sufficiency and mutual assistance, focused on improving the financial well-being of their members. They often serve a specific community, group, or region, providing accessible services and fostering local economic stability.

The Kerala government has expressed reservations about the RBI's stringent policies, arguing that they violate states' rights and could harm the cooperative sector. The state administration claims that the Deposit Guarantee Board and Cooperative Restoration Fund are capable of protecting deposits. In cases of financial fraud in Kerala cooperative banks, NABARD has a comprehensive supervisory strategy that includes requiring fraud notifications,

conducting regulatory inspections, developing early warning mechanisms, and providing coaching to improve bank management. Nonetheless, because "Cooperation" is a subject regulated by the state in India, NABARD works with the state government, whereas banks are responsible for fund recovery and disciplinary action. NABARD requires cooperative banks to swiftly report any identified fraud. The extent of the fraud—particularly the amount at stake—determines the level of following action. In cases of major fraud, NABARD may conduct a targeted "quick assessment or portfolio review." NABARD representatives will visit the bank to analyse the portfolio involved with the fraud and review the bank's internal controls for vulnerabilities. When a novel or inventive fraud tactic is discovered, NABARD issues "cautionary advice" to all rural cooperative banks to prevent future incidents. The RBI has the authority to impose monetary fines for noncompliance. NABARD monitors and investigates complaints and issues expressed by the public about supervised organizations, addressing them during assessments. Banks must analyse employee responsibility in all fraud cases and respond quickly. The cooperative bank shall initiate fund recovery and disciplinary action against employees in accordance with the state's Cooperative Societies Act. NABARD's inspection results for financial stability, governance, and fraud prevention are communicated to the proper authorities, including the state government. The RBI and Enforcement Directorate may take additional actions, as indicated by events like the Karuvannur Cooperative Bank scam.

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