



An Analysis of The Future of Cooperative Society Banks in India

Dr Sankar Rajeev

Former Professor KL University



Article History:

Received: 01/06/2026

Accepted: 20/06/2026

Published: 30/06/2026

Corresponding Author:
Dr Sankar Rajeev

Abstract

The article presents a critical examination of cooperative banks in India, highlighting their transformation from community-centric institutions to breeding grounds for corruption, fraud, and financial mismanagement. Despite their original mission of promoting financial inclusion, cooperative banks have increasingly become associated with significant scandals, including loan fraud and embezzlement, leading to heavy financial losses for depositors. In the introduction, the author notes how recent reports of fraud involving significant amounts challenge the integrity of these banks, alongside the regulatory frameworks meant to oversee them — highlighting issues such as dual oversight by cooperative and banking authorities. As the article proceeds, it reviews the current landscape of cooperative banks, outlining their types and the regulatory bodies involved. It also discusses literature that emphasizes their historical context and evolution in relation to global banking structures. Methodologies adopted reflect descriptive research focused on fraud detection and offer a detailed analysis of systemic failures, identifying root causes linked to mismanagement, lack of accountability, and political interference. The analysis further extends to case studies of prominent fraud incidents, revealing the grim financial repercussions for the public and trust in cooperative banking. The recommended strategies to mitigate fraud are robust and multi-fold, emphasizing technology integration, employee accountability, and comprehensive audit controls, concluding that urgent reforms are necessary to stabilize the sector.

Keywords: regulatory oversight, fraud detection systems, cooperative societies act, KYC (know your customer), risk- focussed strategy

Article Citation: Dr Sankar Rajeev (2026). An Analysis of The Future of Cooperative Society Banks in India. **IRGS Journal of Economics, Business and Management (IRGSJEBM)**, Vol-1 (Iss-1), 25-31.

Introduction

Cooperative banks, governed by democratic principles, have devolved into institutions rampant with fraud and mismanagement. The surrounding regulatory chaos and apathy highlight a cycle of financial loss for depositors, where trust seems optional in the cooperative banking system. Recent news highlights extensive fraud in cooperative banks, emphasizing their essential role in providing financial services to the underserved. The regulatory framework consists of dual oversight from cooperative and banking regulators to ensure compliance, although it has faced notable challenges. The various types of cooperative banks in India serve distinct purposes: State, District Central, and Urban Cooperative Banks, each supporting financial needs in specific regions while functioning under specific regulatory guidelines. As of 2025, India has almost 1,457 Urban Cooperative Banks, underlining their importance despite regulatory challenges. Compliance with RBI and NABARD regulations is crucial for their operational integrity. A comprehensive analysis of cooperative banks reveals financial mismanagement linked to lax governance, insufficient regulations, and deep-rooted political corruption, presenting a troubling picture of the cooperative banking sector. The systemic issues ranging from governance failures to instances of fraud exemplify the precarious state of cooperative banks, often exacerbated by the involvement of political figures leading to unsustainable conditions and lost depositor trust. The culmination of research suggests urgent need for multifaceted interventions to ensure effective management of cooperative banks and restoration

of depositor confidence. From a social perspective, cooperative banks exist to promote community engagement and assist in financial inclusion. However, the current state of corruption threatens these objectives, disenfranchising many individuals relying on these banks. Economically, the frauds on a wide scale not only erode savings but also impact local economies dependent on cooperative banks. Technologically, the proliferation of real-time monitoring systems and AI in financial institutions highlights a shift that cooperative banks must adopt to remain relevant and secure. Lastly, the political implications, illustrated by reports of collusion with developers, underscore the need for a clear separation of these institutions from political influences to restore their foundational mission.

Literature Review

Co-operative Banks in India 2010, Amit Basak, New Century Publications, India. Both urban and rural cooperative banks are vital to India's financial system, despite being much smaller than commercial banks. They can communicate with people in far-off places thanks to their vast branch network. Throughout history, they have played a crucial role in promoting banking habits among low- and middle-income households and enhancing the rural credit distribution network. In order to satisfy the increasing credit needs of India's urban and semi-urban areas, urban co-operative banks (UCBs), also known as primary cooperative banks, are crucial. UCBs lend money to small borrowers, particularly the most

vulnerable members of society, using money from middle- and lower-class households. Scheduled UCBs are subject to stricter oversight and monitoring by the Reserve Bank of India. This book centres on India's UCBs and offers a comprehensive analysis of the functioning of co-operative credit institutions, along with recent reforms. It includes a case study on the functioning of UCBs in the Indian state of West Bengal.

Co-operative Banks in India & Select Countries, 2014, S Nakkiran, New Century Publications. Contract conditions in a market-oriented economy are typically skewed in favor of rich people. Those in control of scarce resources have the freedom to bargain with those who need them but are unprepared to compete for them. Cooperatives are institutions that promote social solidarity. The ultimate goal is to create a system of cooperative community organization that encompasses all aspects of life. Cooperatives originated in India to ensure that poor persons had access to benefits that better-off individual might achieve using their own personal resources. The concept of mutual aid, which serves as the foundation of cooperative groups, and the practice of thrift and self-help that supports it, promote a strong sense of self-reliance, which is essential in a democratic way of life. Members of cooperative organizations not only solve individual problems by combining their experience and expertise and supporting one another, but they also become better citizens. This book examines how cooperative banks work in India and a few other countries, particularly Bangladesh's Grameen Bank, to help readers comprehend their position in a globalized world.

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 reviews the main functions of Central Cooperative Banks, emphasizing Kanpur and South Arcot. The recommendations for addressing weaknesses and the methods advised for fortifying the banks are applicable to all of them nationwide.

Urban Cooperative Banks in India at Crossroads, 2024, Ramu Nagarajapillai, Elia Books, Moldova. The cooperative credit movement in India is a complicated network that serves the greatest number of individuals worldwide. The urban sector, the three-tiered short-term rural sector, and credit societies all support between 267 and 390 million people. Urban cooperative banks (UCBs) are a separate type of institution. They are registered in accordance with the relevant state's Cooperative Societies Act, which gives the registrar of cooperative societies the authority to both register and dissolve the societies. Simultaneously, these banks evolved into entire banking institutions only after the Banking Regulation Act of 1949 was amended on March 1, 1966, giving the Reserve Bank of India (RBI) regulatory responsibilities such as issuing licenses and supervising banking activities. This results in shared oversight of UCBs by both state and federal governments. 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.

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.

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:

1. What specific reforms can be implemented to mitigate the risks of fraud in cooperative banks?
2. How can technology enhance the operational effectiveness of cooperative banks?
3. What role does public trust play in the sustainability of cooperative banks?
4. How does the dual regulatory framework contribute to the issues faced by cooperative banks?
5. What is the impact of political involvement on the governance of cooperative banks?
6. In what ways can cooperatives restore their foundational mission amid rising fraud cases?
7. What educational initiatives could improve awareness about secure banking practices among cooperative bank clients?
8. How can deposit insurance schemes be leveraged to protect users of cooperative banks?

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.

Analysis

In India, cooperative banks are constituted under the Cooperative Societies Act, perpetrating to their specific states or the Multi-State Cooperative Societies Act. They are obliged to adhere to the directives set by the Reserve Bank of India (RBI) and NABARD, and they must secure a license to undertake banking operations per the Banking Regulation Act of 1949. Cooperative banks are monitored by the Reserve Bank of India (RBI) and the National Bank for Agricultural and Rural Development (NABARD), contingent upon the bank's classification. The RBI oversees Urban Cooperative Banks (UCBs) under the Banking Regulation Act of 1949 (akin to cooperative banks), whereas NABARD governs and supervises State Cooperative Banks (StCBs) and District Central Cooperative Banks (DCCBs). The RBI's Urban Banks Department regulates and oversees UCBs. The RBI issues directives, advisories, and circulars to UCBs, StCBs, and DCCBs in line with the Banking Regulation Act of 1949 (related to cooperative banks). The RBI conducts Periodic checks to confirm that UCBs abide by the stipulations. NABARD supervises and manages StCBs and DCCBs, which are similarly controlled by the RBI under the Banking Regulation Act of 1949. NABARD carries out routine scrutiny to confirm adherence to RBI guidelines and regulations.



Figure1: Protest by Investors in Mumbai on Failure of PMC Bank (Courtesy Google)

The diversion of exceptionally large sums offended by bank staff who grant advances or extend credit to relatives without conducting the necessary due diligence is termed loan deception and misappropriation. Perpetrators may establish fabricated accounts or employ deceitful manoeuvres as a means to wrongfully extract capital from the bank. By examining anomalies at the Karuvannur Service Cooperative Bank, the Enforcement Directorate uncovered a substantial scam and fiscal harm to the public. Following a notable fraud probe that exposed suspected graft via advances extended to their kin at the Mylapra Service Cooperative Bank, possessions belonging to former officials were confiscated. This Kandala Service is situated in Thiruvananthapuram. The widespread issues of fiscal management and deception that have affected Kerala have affected Kerala's cooperative sector, as well as the Cooperative Bank. Karuvannur Cooperative Bank matter, which the Enforcement Directorate is investigating for fraudulent lending practices and potential involvement of government functions. The ED has issued a final indictment in this case, sparking political debate. Additional instances of falsies and deceit have been reported throughout the state, causing distressed depositors and inquiries by supreme bodies such as the Kerala Lok Ayukta and the High Court.

Depositors who are unable to access their money have approached the Kerala Lok Ayukta for aid, they have lost money as a result of cooperative bank fraud, with the amounts varying depending on the situation. 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 failure of New India Cooperative Bank exposed issues of fraud and incompetence, leaving depositors stranded. PMC Bank involved in a massive scam in which officials colluded with developers to conceal poor loans, resulting in withdrawal limitations and depositor unhappiness. 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 exposed issues of fraud and incompetence, leaving depositors stranded. A key underlying issue in many failures, which frequently leads to political corruption, fraud, and incompetence. 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.

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. The Kerala government has stated that it will ensure investments in cooperative organizations. The state government has modified its co-operative deposit guarantee scheme to improve efficiency and protect depositors.

The cooperative sector is typically described as having a foundation of trust and a dedication to societal benefit. Many are directed by local leaders, creating a strong sense of community control and accountability. The sector may become politicized, and local political issues may jeopardize its stability. Some cooperative banks have faced financial difficulties, creating concerns and, in some cases, undermining public trust. Financial institutions battle fraud by using a range of strong security measures, including cutting-edge technologies like AI and machine learning for real-time transaction monitoring, multi-factor authentication to verify customers, and stringent KYC procedures to validate customer identities. Institutions also prioritize employee training to detect and report suspicious behaviour, as well as educating clients on best security practices, such as not exposing personal information and regularly monitoring their accounts. Use powerful algorithms to analyse large datasets, spot unusual trends in real time, and identify potentially fraudulent activities. Continuously monitor client behaviour, 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. Use technologies that can predict and prevent fraud by evaluating previous patterns and trends. Regularly educate all workers, particularly those in customer-facing roles, on the latest fraud methods, how to recognize suspicious conduct, and internal rules. 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.

Banks are obligated to report regulatory bodies (such as the RBI) and law enforcement agencies of fraud instances within a certain time range. 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. Essential measures include mandatory and prompt fraud reporting to the RBI and law enforcement, establishing a strong governance framework, implementing an Early Warning Signals (EWS) system for

proactive detection, ensuring staff accountability, and utilizing technology to combat cyber fraud, including verification of the Mobile Number Revocation List.

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.

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.

To decrease risks and protect operations, banks and financial institutions must implement comprehensive fraud prevention methods. 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. By categorizing transactions based on their risk profile, institutions can better allocate resources and impose enhanced control 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 offer a forward-thinking fraud prevention strategy, allowing firms to stay ahead of evolving fraud strategies and protect their resources with unparalleled precision and effectiveness. Organizations can improve their ability to detect and prevent fraudulent actions by seamlessly integrating these systems. This complete technique enables firms to aggressively combat fraudulent behaviour 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 behaviour. By examining transaction data alongside

customer information, institutions can improve their fraud detection capabilities and respond rapidly to suspicious activity. Financial institutions utilize transaction monitoring technologies to detect suspicious activity in real time.

Table: Number of frauds cases reported by RBI regulated entities

Sl. No.	Category	No. of cases	Amount involved Rs (millions)
1	Banks	169190	299101.2
2	NBFCs	935	1547.8
3	UCBs	6345	10570.3
4	FIs	77	2790.8
5	Total	176547	314010.1

Table: Frauds cases reported by RBI regulated entities

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 detecting fraud, European financial institutions must follow a standardized method that complies with EU standards 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 collects all relevant information and evidence to determine the veracity of the fraud accusation. The organization contacts the affected consumer to warn them of the fraud, verify the unlawful transactions, and advise them on what steps to follow. Management has been made aware 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 contains statistical information, following a uniform methodology established by the European Banking Authority (EBA). In serious situations, financial institutions will notify the police about fraud. This is especially true for crimes that relate to organized crime, like money laundering or corruption. National competent authorities give the EBA and the European Central Bank (ECB) with aggregated fraud statistics.

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 goal is to discover and confiscate assets before returning the money to the victims, albeit this may take some time. In circumstances of substantial fraud, the central bank may impose a suspension on the bank. This temporarily restricts the bank's operations, such as customer withdrawals, in order to prevent further financial loss and protect the remaining 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 occurrences in Mumbai and Kerala underscore this situation, where fraud and mismanagement harm depositors and members. Political figures often utilize cooperative banks and groups to reinforce their authority and sway. 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 possess the power to examine and disband corrupt organizations, these regulators often ignore the issue due to political influences. 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.

Recommendations

Reforms can include stricter regulatory enforcement, enhanced governance frameworks, and integration of advanced fraud detection technologies. Technology can help identify suspicious activities early through algorithms that analyse transaction patterns and customer behaviour. Public trust is critical for cooperative banks as it influences depositor relationships and the banks' ability to function effectively within communities. The dual regulatory framework often results in administrative confusion and ineffective

oversight, complicating the management of compliance and accountability. Political involvement in cooperative banks can lead to misuse of resources and a lack of transparent governance, undermining the institutions' missions. Cooperative banks can restore their mission through transparency, stakeholder engagement, and adherence to ethical banking practices. Educational initiatives could include workshops, informational campaigns, and the integration of secure practices into customer onboarding processes. Deposit insurance schemes can protect depositors, encouraging them to trust while ensuring financial stability during crises.

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.

Banks should also use advanced analytics to track transactions in real time and profile customer behaviour, as well as educate employees and customers on emerging threats like phishing and social engineering. Internal and technical measures Establish stringent client authentication measures to prevent the creation of fraudulent and mule accounts. To detect suspicious behaviours quickly, use automated systems for real-time transaction monitoring, behavioural 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.

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 Fraud Investigation Office and the Enforcement Directorate to investigate major fraud cases. These organizations conduct forensic audits to track the flow of funds and identify illegal earnings. The ED has the authority to temporarily attach and seize the assets and property of the accused individuals and businesses involved in the fraud. This is a necessary step in retrieving the profits of the offense. Banks are obligated to categorize fraud based on the nature of the crime and submit information 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.

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. Cooperative banks with deposits above ₹1000 crore must set up an EWS to detect fraudulent activities quickly. Banks must report to the RBI about fraud cases within 14 days of their classification. The regulations mandate a quick evaluation of staff culpability in every fraud incidence. Before branding a person as fraudulent, banks must send a show-cause notice and provide them with the opportunity to respond. RBI imposes monetary sanctions on cooperative banks that violate regulations, regardless of whether the violations occurred before the foundation of the amalgamated organization. In October 2022, the RBI fined the Kerala State Co-operative Bank ₹48 lakh for violating gold loan limits and possessing interests in other cooperative societies that exceeded the limit. The violations were documented 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 RBI. This led to uncertainty and weakened government. The Banking Regulation (Amendment) Act of 2020 expanded the RBI's authority over urban cooperative banks. A prominent loan scandal at the Karuvannur bank exposed flaws in Kerala's cooperative sector. The Enforcement Directorate (ED) investigated the scheme and discovered a political connection. It is quite clear that RCS, RBI and NABARD have been absolving their responsibilities in these scams, whereas it is obvious case of incompetence of these agencies and the primary step should be to nab these incompetent officers and staff, interrogate them and ascertain culpability. Lifelong savings of ordinary salaried employees have been cheated. The important point which emerges at this time is the culpability and incompetence of the management of these banks. Uneducated, ill-informed people who are the proxies of political parties occupy these positions and divert funds of innocent people. For occupying positions in the management of these cooperative banks certain basic criteria other than political affiliations should be made mandatory. Board of directors, credit committee should be represented by a full time NABARD official who will be responsible for all cases of loan disbursements.

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.

Recognizing and addressing fraud after it has occurred. Both measures are necessary, but they serve unique purposes in protecting financial institutions. Developing efficient fraud detection and prevention measures is critical for cooperative banks, given the surge in online scam operations that defraud people out of billions of dollars. 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 behaviour from occurring in advance. This includes implementing strong security measures, developing stringent internal procedures, and frequently checking for potential vulnerabilities.

Conclusion

The persistent issues in cooperative banks stem from a combination of poor governance, lack of regulatory enforcement, and political corruption, necessitating extensive reforms. Strengthening internal controls and adopting advanced technologies for transaction monitoring can significantly reduce instances of fraud. Educating stakeholders, including employees and the public, about security risks is essential in building a resilient financial environment. The RBI and NABARD's monitoring frameworks must be supported by local regulatory bodies; collaborations can enhance compliance and oversight. Legal reforms emphasizing accountability and transparency in cooperative banking operations can help recreate trust among depositors.

A multifaceted strategy is proposed, combining robust internal frameworks with advanced technology and continuous training, to bolster fraud prevention and restore public trust. A clear path to improving accountability, incorporating stringent reporting practices, and recognition of fraud must be established to strengthen cooperative banks' operational integrity.

The analysis underscores an urgent call for reform within the cooperative banking sector in India, emphasizing the need for strengthened regulatory measures, technological advancements, and transparency in operations. With cooperative banks playing a vital role in financial inclusion, restoring trust and security must be a priority through proactive strategies addressing fraud and governance. The intertwined nature of community benefit and sound banking practices is crucial for revitalizing cooperative banks to fulfil their original mission of uplifting their members and fostering local economic growth.

References

1. U.S. Bureau of Labour Statistics. Consumer Price Index: Data Sources. Retrieved from <https://www.bls.gov/opub/hom/cpi/data.htm>.
2. Retrieved from <https://ccs.umich.edu>factsheets>us-cities-factsheet>.
3. Melissa Ling. (2019). Investopedia.
4. Osikhotsali Momoh. (2021). Investopedia.
5. Milton Friedman. (1963). A Monetary History of the United States 1867–1960.
6. Jordi Gali. (2008). Monetary Policy, Inflation, and the Business Cycle: An Introduction to the New Keynesian Framework and Its Applications.
7. Thomas Laubach, Adam Posen, Frederic Mishkin & Ben S. Bernanke. (1999). Inflation Targeting: Lessons from the International Experience.
8. Timothy Jerome Kehoe and Juan Pablo Nicolini. (2022). Monetary and Fiscal History of Latin America.
9. Thomas J. Sargent. (1999). The Conquest of American Inflation.
10. James Forder. (2014). Macroeconomics and the Phillips Curve Myth. OUP Oxford.
11. Hoover, K. D. (2018). Phillips Curve. Econlib.
12. Goswami Mohitgiri. (2015). Descriptive Research. LAP Lambert Academic Publishing.
13. Robert K. Yin. (2002). Case Study Research.
14. Grace Shawn. (2023). The Collapse of Silicon Valley Bank. Amazon.
15. Federal Reserve Bank of San Francisco. (2017). Natural Rate of Unemployment Past 100 Years, Investopedia.
16. Retrieved from economics.org/blog/27613/inflation/demand-pull-inflation.
17. Retrieved from <https://ccs.umich.edu>factsheets>us-cities-factsheet>.