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Study On Preventive Measures Adopted by Cooperative Banks to Control Financial Irregularities

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Abstract
Cooperative banks are vital for providing banking services to local communities, small traders, farmers, students, and salaried individuals. However, as banking operations grow and financial transactions increase, the risk of financial issues has also risen. Problems like weak internal controls, a lack of transparency, procedural mistakes, and fraud can harm the reputation and stability of cooperative banks. Because of this, it is crucial for these banks to adopt effective measures to maintain financial discipline and protect their customers' interests. This study looks at the measures that cooperative banks use to prevent financial irregularities. The study relies on primary data gathered through structured questionnaires, along with secondary data from journals and research papers. The research emphasizes on customer awareness, perceptions towards transparency, internal control systems, audit practices, and overall trust in cooperative banks. The results show that most respondents are moderately to highly aware of preventive measures. The study concludes that preventive measures positively affect customer trust and confidence, although there is still a need to improve awareness programs and transparency.
Keywords: *Financial Irregularities, Preventive Measures, Internal Control Systems, Banking Transparency.*

1. Introduction
The banking sector has a major role to play in the economic development of any nation by mobilizing the savings of the people and utilizing the same for economic activities. In the Indian banking sector, the cooperative banks are an integral part of the banking industry as these banks operate on the principle of cooperation, mutual aid, and democracy. The main objective of these banks is to fulfill the financial needs of the people living in the localities, traders, farmers, salaried people, and self-employed individuals. Over the years, the services of the cooperative banks have increased as these banks have started offering a number of financial facilities to the people. Along with the rise in financial activities and the number of financial transactions, the risk of financial irregularities has also increased. Financial irregularities can take place due to a number of reasons such as the absence of internal controls, lack of transparency, non-compliance of the regulations, and even due to some sort of fraud. Financial irregularities can create a bad impact on the financial stability of the banks and create a lack of trust among the customers. In the recent past, there have been several instances of financial mismanagement and irregular practices in cooperative banks. Such instances have brought into focus the importance of adopting effective preventive measures in ensuring transparency, accountability, and proper financial management in cooperative banks. Internal control systems, audits, inspections, training, compliance with regulations, and technology-based security systems are important preventive measures in ensuring the proper management of finances in banks. In addition to institutional mechanisms, the role of customers and members of the banks in maintaining financial discipline is also important. Customers who are aware of the banking systems and security systems in place can contribute significantly

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in promoting transparency in banking operations. Moreover, the ethical values and responsibility of employees in banks are also important in promoting proper banking operations. Trust and confidence of the customers are major factors that influence the success and sustainability of cooperative banks. As the major focus of cooperative banks lies in the participation of the public, the importance of maintaining transparency and financial integrity increases further. Therefore, the importance of studying the preventive measures undertaken by the cooperative banks to control financial irregularities and the effectiveness of these measures cannot be undermined [1-5].

2. Literature Review

The existing studies on cooperative banks mainly focus on their role in the financial system and the challenges they face in maintaining financial stability and preventing irregularities. These studies mention that Cooperative banks play an important role in providing banking services to small businesses, farmers, and local communities. However, due to weak governance structures, limited financial resources, and inadequate risk management practices, these banks sometimes face financial irregularities and operational difficulties. Therefore, many research studies have analyzed the causes of such problems and suggested preventive measures to strengthen the functioning of cooperative banks. Several studies highlight the importance of effective risk management in cooperative banking institutions. These studies explain that cooperative banks are more vulnerable to financial risks because they deal with small borrowers and operate at the local level. Economic uncertainty, changes in market conditions, and unexpected events can increase the chances of loan defaults. As a result, banks need to adopt proper credit appraisal systems before granting loans.

Carmina Elena, Liliana-Aurora (2024) in their paper entitled The strategy for efficient management of significant risks in the cooperative banking system during the current economic and financial crisis period state that in recent years, there has been a focus on managing risks effectively in banks and credit institutions, while still maintaining satisfactory performance rather than trying to maximize profits. The COVID-19 pandemic, both globally and in India, has caused a situation where customers (borrowers) are less able to repay their loans, which increases the risk of defaults for banks. To address this, banks need to regularly analyze borrowers' financial situations and work with them to agree on appropriate repayment methods and schedules. This approach helps reduce credit risk and ensures that debts can be recovered more efficiently.

A. Khafagy - Annals of Finance, (2018) in the study "Regulation, Supervision, and Deposit Insurance for Financial Cooperative" mention how different rules and oversight systems affect the growth of financial cooperatives in developing countries. It looks at three main things: the type of regulation used, who supervises these cooperatives, and whether deposit insurance is available. The analysis uses data from 65 developing countries over the period 1995–2014, collected mainly from national laws and regulations, and applies statistical methods that account for differences across countries and over time. The main results show that financial cooperatives tend to develop better when there is a regulation designed specifically for them, when they are supervised by authorities responsible for non-bank financial institutions, and when deposit insurance schemes are in place. In contrast, financial cooperatives perform worse when they are regulated only under general cooperative laws or treated the same as commercial banks under banking regulations. These findings remain valid even after taking into account economic conditions, institutional quality, and possible endogeneity issues.

Adele Caldarelli, Clelia Fiondella , Marco Maffei , Claudia Zagaria (2016) in their study Managing risk in credit cooperative banks: Lessons from a case study examine how Enterprise Risk Management (ERM) can support organisations in achieving both financial and social objectives. Focusing on the credit cooperative banking sector, which is known for its socially responsible approach, the study provides an in-depth analysis of a single cooperative bank to understand how it manages risk. The findings show that ERM practices are shaped by the specific context of cooperative banking and help these organisations address the challenges that arise from balancing economic performance with social goals. It also offers practical insights for cooperative banks and

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other socially oriented businesses on using ERM to manage risk while supporting local communities and social development [6-10].

Analysis of RBI Restrictions on New India Co-operative Bank: Regulatory and Customer Impact, Chandra Shekhar (2025). The crisis at New India Cooperative Bank highlights serious weaknesses in India's cooperative banking sector. Due to financial instability and a shortage of liquidity, the Reserve Bank of India imposed strict restrictions under the Banking Regulation Act, 1949. These restrictions include stopping new loans, limiting deposit withdrawals, preventing asset sales, and suspending new investments to protect depositors and stabilize the bank. Financial analysis shows that the bank has a major liquidity shortage, with only ₹50 crores in reserves against ₹2,500 crores in deposits. It also has high non-performing assets (₹320 crores), failure to meet regulatory requirements like CAR and LCR, and weak governance and risk management. The crisis has affected customers and businesses, as many depositors cannot access their funds and small businesses face cash flow problems. It has also reduced public trust in cooperative banks. To improve the situation, stronger regulatory supervision, capital support or mergers, faster deposit insurance payouts through Deposit Insurance and Credit Guarantee Corporation, better governance, and financial awareness programs are recommended. Long-term reforms are necessary to strengthen cooperative banks and restore depositor confidence.

3. Research Objectives

- To study the benefits of Co-operative banks and irregularities faced by them.
- To assess the level of awareness among customers regarding preventive measures taken by cooperative banks.
- To study the opinions and experiences of customers related to safety, transparency, and financial practices of cooperative banks.
- To understand the perception of cooperative bank members and employees regarding financial irregularities and preventive controls.

4. Research Methodology

The nature of the present research is descriptive in nature. Descriptive research is used to describe the characteristics, opinions, and experiences of respondents in relation to a particular subject. The study is based on both primary data and secondary data in order to obtain reliable and comprehensive information. Primary data has been collected through a structured questionnaire distributed among customers of cooperative banks as well as bank members and employees. The questionnaire includes questions related to customer awareness, opinions and experiences regarding banking practices, perception about preventive measures, and the level of trust and confidence towards cooperative banks. The sample size was 80 respondents. Convenience and Snowball sampling technique was used for data collection. The secondary data for this research has been collected from various sources such as research papers, academic journals, books related to banking and finance, articles from reliable websites, and reports published by cooperative banks and regulatory authorities. For the purpose of collecting primary data, convenience sampling method has been adopted. The respondents are selected based on their accessibility and willingness to participate in the survey. The respondents mainly include customers of cooperative banks and cooperative bank employees or members who have knowledge and experience related to banking services and financial practices. The sample size used was 80 respondents. After collecting the responses, the data has been carefully organized and analyzed using simple statistical techniques. Thus, the research methodology adopted in this study provides a systematic approach to examine the preventive measures followed by cooperative banks and their effectiveness in controlling financial irregularities. The combination of primary and secondary data along with descriptive analysis helps in achieving the objectives of the study and drawing meaningful conclusions.

5. Scope of the Study

The study provides useful insights into the preventive measures adopted by cooperative banks to control financial irregularities. It helps in understanding customer awareness, banking practices, and the importance of internal control systems in cooperative banks. The findings of the study can assist banks in improving their risk management practices and

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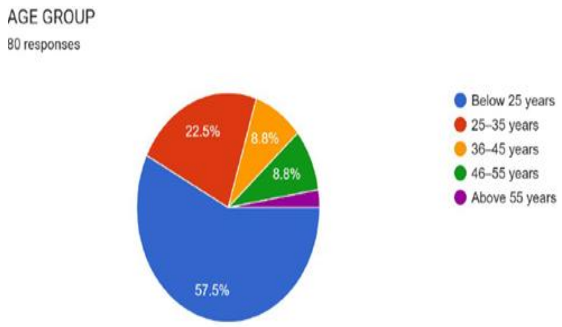
strengthening customer confidence [11-15].

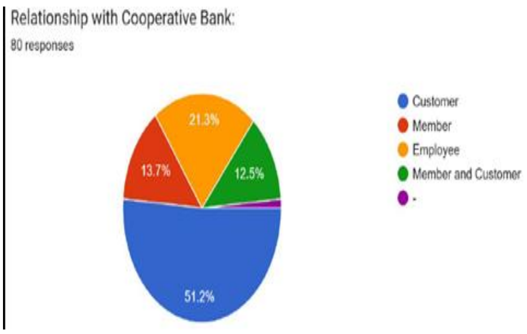
6. Data Analysis and Interpretation

6.1.Age Group Distribution of Respondents:



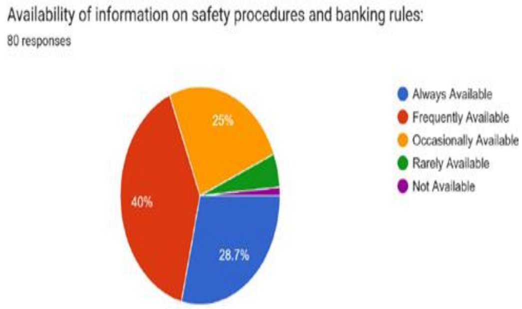
The pie chart shows that the majority of respondents belong to the below 25 years' age group, accounting for nearly 58% of the total respondents. This indicates that most participants in the survey are young individuals such as students and early-career professionals who frequently use cooperative banking services. Around 23% of respondents belong to the 25–35 years' age group, representing young working professionals who interact with cooperative banks for savings and transactions. A smaller proportion of respondents falls under the 36–45 years (9%) and 46–55 years (9%) categories.

6.2.Relation with the Bank



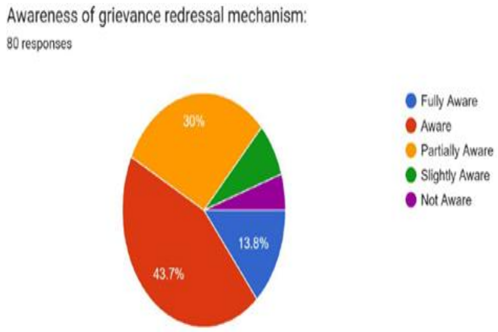
The results show that approximately 51% of respondents identified themselves as customers, indicating that most participants interact with cooperative banks mainly for banking services. Around 14% respondents are members of cooperative banks, which means they have voting rights in the decision making of the bank. More than 21% of respondents are employees of cooperative banks, representing individuals who work within the banking system and have good knowledge of banking operations, systems and preventive measures. This combination of respondents including Customers, Members, and employees has helped in providing a broader understanding of awareness, trust, and preventive measures within cooperative banking institutions.

6.3.Availability of information about safety procedures and banking rules



The survey indicates that information regarding safety procedures and banking rules is generally accessible to customers. Around 40% of respondents stated that information is frequently available, while approximately 29% mentioned that such information is always available. However, about 25% of respondents indicated that information is only occasionally available, suggesting that some customers may not consistently receive updates about banking policies or safety guidelines. These findings suggest that cooperative banks are making efforts to maintain transparency and communication with customers.

6.4.Awareness of Grievance redressal mechanism



The survey responses show that most respondents are

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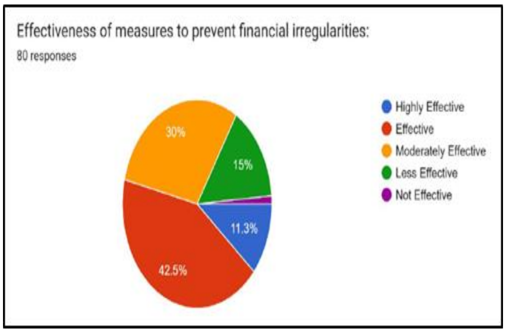
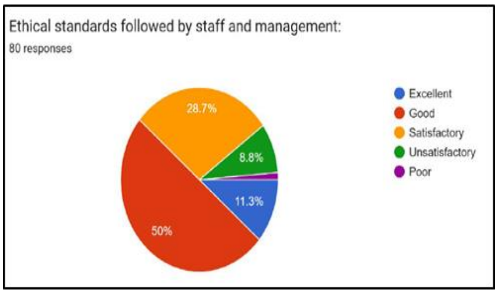
aware of grievance redressal mechanisms available in cooperative banks. Approximately 44% of respondents reported being aware, while about 14% stated that they are fully aware of complaint resolution procedures. This suggests that cooperative banks have established complaint resolution systems, but more efforts are required to educate customers about how to use them effectively. Banks should promote grievance channels through customer service desks, bank websites, and awareness campaigns [16-19].

6.5.Effectiveness of measures to prevent financial irregularities



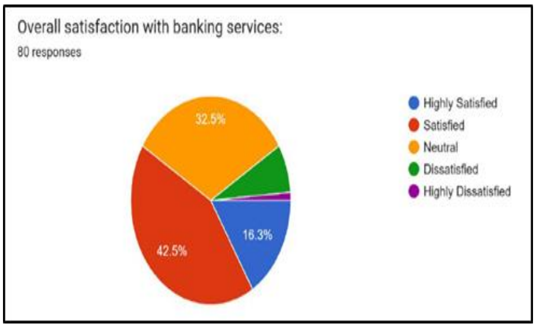
The survey findings suggest that preventive measures implemented by cooperative banks to prevent financial irregularities are generally considered effective. Approximately 43% of respondents rated these measures as effective and 11% indicated highly effective, while 30% considered them moderately effective. However, a smaller group, felt that the measures are less effective or not effective. This shows that most customers believe cooperative banks are making reasonable efforts to control financial irregularities, though continued improvement in monitoring and fraud detection systems is necessary.

6.6.Ethical standards followed by Staff and Management



The responses regarding ethical standards indicate that most respondents believe that staff and management in cooperative banks maintain satisfactory ethical practices. 50% respondents rated ethical standards as good, suggesting that employees generally behave professionally and follow acceptable ethical practices while dealing with customers and financial operations. Around 11% of respondents reported that ethical standards are excellent, indicating strong confidence in the honesty, integrity, and professionalism of bank staff and management. Nearly 29% of respondents considered the ethical standards to be satisfactory, meaning that while ethical practices are generally acceptable, there may still be scope for improvement in certain areas such as transparency, accountability, or customer service. However, about 8–10% of respondents rated ethical standards as unsatisfactory or poor, which suggests that some customers have experienced issues related to staff behavior, transparency, or professionalism. Overall, the findings indicate that cooperative banks maintain generally positive ethical standards, but continuous training, supervision, and adherence to professional codes of conduct are necessary to ensure higher levels of integrity and trust.

6.7.Overall satisfaction with banking services



The results reveal that the majority of respondents are satisfied with the services offered by cooperative banks. Approximately 43% of respondents reported being satisfied, while around 16% stated that they are highly satisfied with the banking services. About 32% respondents gave a neutral response, suggesting that their experience with banking services is average. A smaller proportion, approximately expressed dissatisfaction or high dissatisfaction.

These results indicate that cooperative banks generally provide acceptable and reliable services, though improvements in service quality, digital banking facilities, and customer support could further increase satisfaction levels.

Conclusion

The study highlights the importance of preventive measures adopted by cooperative banks to control financial irregularities and ensure financial stability. Cooperative banks play a significant role in providing financial services to local communities, small businesses, and individuals. However, issues such as weak internal control, mismanagement, and lack of awareness can lead to financial irregularities. The study shows that effective risk management practices, regular audits, proper supervision, and strong governance systems help in reducing financial fraud and irregularities. It also indicates that increasing customer awareness and improving transparency can strengthen the trust of customers in cooperative banks. Overall, preventive strategies and proper regulatory support are essential for maintaining the stability and credibility of cooperative banks.

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