

Research Article

To Study the Challenges and Opportunities in the Growth and Sustainability of Cooperative Banks

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Abstract: Cooperative banks in India are unique financial institutions rooted in the principles of cooperation, mutual aid, and democratic governance. Unlike commercial banks that prioritize profit, cooperative banks are owned and controlled by their members, who are both the customers and stakeholders. Operating under the democratic principle of "one member, one vote," these banks emphasize inclusive decision-making, economic equity, and local development. Their primary aim is to serve the financial needs of underserved populations—particularly in rural and semi-urban areas—by offering accessible credit, savings, and other essential banking services. Cooperative banks play a crucial role in promoting financial inclusion and rural development. They provide timely and affordable credit to farmers, support small-scale industries, and contribute significantly to poverty alleviation and employment generation through microfinance and collaboration with Self-Help Groups (SHGs). Additionally, these banks serve as essential channels for implementing government welfare schemes and facilitating direct benefit transfers (DBTs), especially in remote areas. This study seeks to evaluate the role of governance, financial sustainability, technological adoption, and service diversification in the success of cooperative banks. Using a mixed-methods research approach—including a quantitative survey of 50 responses and qualitative analysis—the project aims to identify strategic opportunities and challenges that will shape the future of cooperative banking in India.

Keywords: Cooperative banks, challenges, opportunities, financial inclusion, rural development.

INTRODUCTION

Cooperative banks play an indispensable role in promoting financial inclusion in India, especially among the rural and semi-urban population that continues to remain outside the reach of mainstream commercial banks. One of the primary objectives of financial inclusion is to ensure that vulnerable and low-income groups have access to affordable and appropriate financial products and services.

Cooperative bank members collectively make decisions regarding the functioning of the bank, typically following the democratic principle of "one member, one vote," regardless of the amount of capital contributed. This ensures that the bank functions in a participatory and inclusive manner, giving equal voice to all its members.

The cooperative banking system in India has its roots embedded in the early 20th century, during the British colonial era. The Banking Regulation (Amendment) Act, 2020, which brought all cooperative banks under the direct supervision of the RBI, was a landmark move in this direction. It aimed to enhance governance and financial stability in the sector.

The core objective of a cooperative bank is to provide accessible, affordable, and need-based financial services to its members, especially those from weaker economic sections. Cooperative banks emphasize service over profit, and their structure is geared toward the social and economic upliftment of their members, making them a vital part of

India's financial ecosystem.

REVIEW OF LITERATURE:

1. Johnson N.J. & Vijayan P.K. (2024): This comprehensive study delves into the financial performance trajectory of State Cooperative Banks (SCBs) in India over a significant decade. Utilizing secondary data from key regulatory bodies like NAFSCOB, NABARD, and the Reserve Bank of India, the authors meticulously analyze crucial financial indicators including total deposits, loans disbursed, borrowings, investments, and working capital. The review highlights a noteworthy growth in SCB operations, attributing it to enhanced member engagement and a growing level of trust within the cooperative structure.

2. IJNRD (2024), "Digital Transformation in India's Cooperative Bank": This research specifically focuses on the ongoing digital transformation within cooperative banks in India, analyzing the various strategies being adopted, the obstacles encountered, and the resulting impacts. The study highlights the significant opportunities that digitalization offers to these banks. These include a substantial boost in client satisfaction through the provision of convenient and accessible digital services, a marked increase in operational efficiency by automating manual processes and leveraging data analytics, and the crucial ability to maintain competitiveness in the rapidly evolving financial landscape by offering digital channels and services that are now expected by customers.

3. Usha G. Subramanian, Ranjith Krishnan & CA (Dr.)

Bharat Patel (2023): The authors critically examine the developmental trajectory of cooperative banks and the challenges they face in the post-liberalization era. Key issues identified include poor governance, limited access to capital, weak internal controls, and low technological adoption. The paper discusses the dual regulatory control as a significant hindrance to smooth operations and introduces the concept of a unified oversight model under RBI as a solution. It also highlights opportunities such as financial inclusion, especially in rural areas, and the digitization drive led by government schemes like Digital India. The authors advocate for a performance-based funding model and professional training for board members to enhance decision-making and sustainability.

4. Raj Kumar, M.R. Gopal & Gyanendra Rout (2022): This paper evaluates how cooperative banks have embraced technology in their operations. It finds that while larger urban cooperative banks have adopted CBS and ATM services, smaller and rural banks are lagging. The study

highlights technology as both a challenge and an opportunity—cooperative banks must invest in affordable tech solutions to stay relevant. Digital inclusion is seen as a key growth area, especially for rural and semi-urban markets. The authors recommend partnerships with fintech companies and government-sponsored digital infrastructure to modernize banking services.

OBJECTIVES OF STUDY:

- To explore the role of governance in the success of cooperative banks.
- To identify the key challenges faced by cooperative banks in maintaining financial sustainability in a competitive market.
- To explore the potential for technological adoption in cooperative banks in India.
- To identify the opportunities for cooperative banks to diversify their services and expand their market reach.

RESEARCH DESIGN:

This study adopts a descriptive research design to examine the challenges and opportunities influencing the growth and sustainability of cooperative banks in India. Primary data will be collected through structured questionnaires and interviews with bank officials and customers, while secondary data will be sourced from annual reports and RBI publications. Quantitative analysis will identify patterns and trends, whereas qualitative insights will help explore policy and operational issues. The research aims to provide actionable recommendations for strengthening cooperative banking practices.

Quantitative survey (Google form)

Design: closed-ended questions.

SAMPLING TECHNIQUE:

We are planning to go for convenience sampling technique.

Convenience sampling technique:

Convenience sampling is a non-probability sampling technique where subjects are selected because of their convenient accessibility and proximity to the researcher.

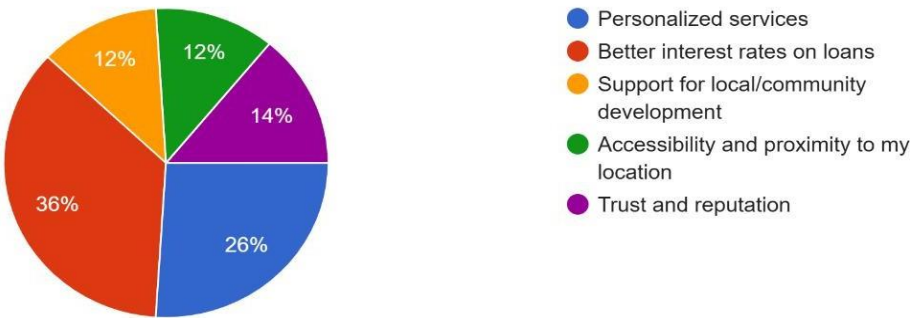
Random sampling

SAMPLE SIZE: 50 Responses

DATA ANALYSIS AND FINDINGS OF THE DATA:

What is the main reason you chose a cooperative bank for your financial needs?

50 responses



Interpretation:

- The most significant reason for choosing a cooperative bank, cited by 36% (representing 18 individuals), is better interest rates on loans. This suggests that the competitive lending rates offered by the cooperative bank are a major draw for its customers.
- A substantial portion of respondents representing 13 individuals chose the cooperative bank due to personalized services. This highlights the importance of individual attention and tailored financial solutions in attracting and retaining customers.

- Trust and reputation were selected by 14% 7 individuals as the main reason. This indicates that the perceived reliability and standing of the cooperative bank in the community play a significant role in customer choice.

What do you consider the biggest challenge for cooperative banks in terms of service quality?

50 responses

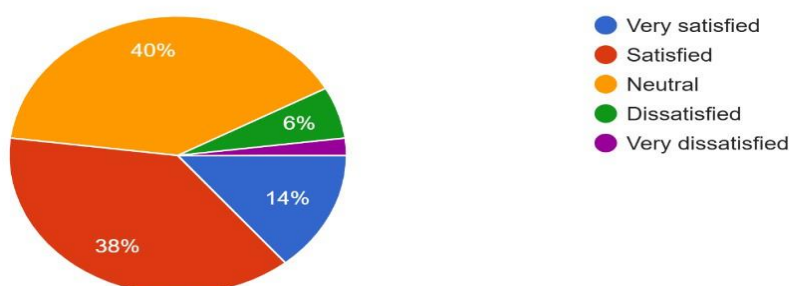


Interpretation:

- The most frequently cited biggest challenge, selected by 23 individuals, is limited access to technology (e.g., mobile banking, ATMs).
- A substantial portion of respondents representing 11 individuals identified slow and inefficient customer service as the biggest challenge. This highlights potential issues with the speed and effectiveness of service delivery through various channels.
- 5 individuals was identified Poor accessibility in rural areas as the biggest challenge. This points to the geographical limitations of service delivery for a segment of the customer base, particularly those in less urbanized regions.
- The least respondents (4 individuals) considered high interest rates on loans as the biggest challenge in terms of service quality.

How do you feel about the level of digital services offered by cooperative banks (e.g., online banking, mobile apps)?

50 responses

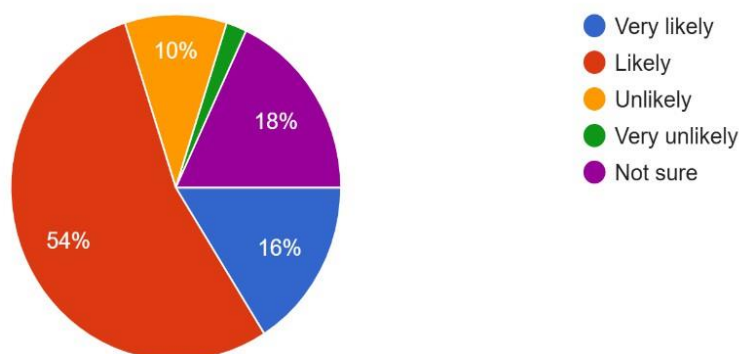


Interpretation:

- The largest segment of respondents representing 20 individuals expressed a Neutral feeling towards the level of digital services. This could indicate that the services meet basic needs but don't exceed expectations.
- A notable portion of respondents representing 19 individuals reported being Satisfied with the digital services. This suggests that the current digital offerings are meeting their needs adequately.
- 7 individuals reported being Very satisfied with the digital services. This indicates that while some customers are highly pleased, this level of strong positive sentiment is not widespread.
- A combined 8% of respondents expressed negative feelings. 6% (3 individuals) reported being Dissatisfied, and 2% (1 individual) reported being Very dissatisfied. While these percentages are relatively low.
- The data reveals a mixed sentiment regarding the level of digital services offered by cooperative banks. While a significant portion of customers are satisfied, an even larger group holds a neutral stance.

In your opinion, how likely is it that cooperative banks will succeed in maintaining growth and sustainability in the next 5 years?

50 responses



Interpretation:

- A significant majority of respondents hold a positive outlook on the future of cooperative banks. The combined percentage of those who believe it is "Likely" (27 individuals) and "Very likely" (8 individuals) that cooperative banks will maintain growth and sustainability is 70% (35 individuals).
- 9 individuals were Not sure about the future success of cooperative banks.
- A smaller portion of respondents hold a negative outlook. 5 individuals believe it is Unlikely, and a very small percentage, only 1 individual, believe it is Very unlikely that cooperative banks will maintain growth and sustainability. The data indicates a generally optimistic sentiment among the surveyed respondents regarding the future growth and sustainability of cooperative banks. Over two-thirds of the respondents believe that success in this area is likely or very likely. However, a small minority holds a pessimistic view. This suggests that while there is overall confidence in the potential of Cooperative banks.

HYPOTHESIS:

The **Kruskal-Wallis H test** is a non-parametric method used to compare three or more independent groups to determine if they have the same distribution (i.e., medians).

Null Hypothesis (H ₀)	Alternative Hypothesis (H ₁)
H ₀ : Perceived service challenges do not influence expectations of cooperative banks' future sustainability.	H ₁ : Perceived service challenges significantly influence expectations of cooperative banks' future sustainability.

In this case, testing is made on if the **perceived challenges** [What do you consider the biggest challenge for cooperative banks in terms of service quality?] are associated with **Likelihood of success** [In your opinion, how likely is it that cooperative banks will succeed in maintaining growth and sustainability in the next 5 years?].

Compared responses to two questions using the **Kruskal-Wallis H test**:

- Q1: Biggest challenge (5 categories/groups) Independent Variable
- Q2: Response (Likelihood) (likert scale: Very unlikely = 1, Unlikely = 2, Not sure = 3, Likely = 4, Very likely = 5) Dependent Variable

Formula:

$$H = \frac{12}{N(N+1)} \sum \left(\frac{R_i^2}{n_i} \right) - 3(N+1)$$

$$H = \frac{12}{50(51)} \left(\frac{625.5^2}{25} + \frac{252.5^2}{11} + \frac{155.5^2}{7} + \frac{78^2}{4} + \frac{78^2}{3} \right) - 3(51)$$

This calculation would yield an **H statistic** of **10.731** (after performing the actual computation, which is based on the summed ranks and the total group sizes).

Calculation of the **p-value** Using the **Chi-square distribution** with k–1 degrees of freedom (where is the number of

groups). Since there are 5 groups, the degrees of freedom would be:

$$df = k - 1 = 5 - 1 = 4$$

Using a **Chi-square distribution table**, the p-value for the calculated **H statistic of 10.731** with 4 degrees of freedom is approximately **0.0295**. Since **p < 0.05**, we **reject the null hypothesis (H₀) and accept the alternate hypothesis (H₁)**.

Null Hypothesis (H ₀)	Alternative Hypothesis (H ₁)
H ₀ : Perception of unique services does not influence customers' choice of cooperative banks.	H ₁ : Customers who perceive unique offerings are more likely to choose cooperative banks.

In this case, testing is made on do people who chose a cooperative bank for **different reasons** [What is the main reason you chose a cooperative bank for your financial needs?] tend to give **different opinions** [Do you think cooperative banks can provide services that larger banks cannot? If yes, what are they?] about the unique services co-op banks offer?

Compared responses to two questions using the **Kruskal-Wallis H test**:

- Q1: Responses are ordinal (i.e., ranked opinions, not numerical values),
- Q2: Categories form **independent groups**.

Formula:

$$H = \frac{12}{N(N + 1)} \sum \left(\frac{R_i^2}{n_i} \right) - 3(N + 1)$$

$$H = \frac{12}{50(50 + 1)} \left(\frac{358^2}{13} + \frac{525^2}{18} + \frac{221^2}{7} + \frac{146^2}{5} + \frac{158^2}{7} \right) - 3(51)$$

This calculation would yield an **H statistic of 1.92** (after performing the actual computation, which is based on the summed ranks and the total group sizes).

Calculation of the **p-value** Using the **Chi-square distribution** with k–1 degrees of freedom (where is the number of groups). Since there are 5 groups, the degrees of freedom would be:

$$df = k - 1 = 5 - 1 = 4$$

Using a **Chi-square distribution table**, the p-value for the calculated **H statistic of 1.92** with 4 degrees of freedom is approximately **0.75**.

Test	H Statistic	p-Value	Significance (α = 0.05)	Interpretation
Kruskal-Wallis H Test	1.92	0.75	No Significant	There is no statistically significant difference in how people perceive the uniqueness of cooperative bank services based on their reasons for choosing the bank.

Since **p > 0.05** we accept the null hypothesis (**H₀**) and reject the alternate hypothesis (**H₁**).

CONCLUSION:

This research offers a comprehensive analysis of cooperative banks, highlighting their generally positive reputation and the value customers place on their services—particularly in offering competitive loan interest rates and personalized attention. However, significant challenges persist, especially in digital infrastructure and customer experience management. While dissatisfaction with digital services isn't severe, the prevalence of neutral responses in satisfaction metrics indicates an urgent need for innovation. Technological advancement has emerged as a key driver not just of customer preference but of long-

term loyalty and sustainability.

Hypothesis testing revealed that service-related challenges do impact perceptions of future growth, yet there is limited evidence linking customers' reasons for choosing cooperative banks to their perception of unique benefits. This indicates a gap in branding and customer awareness. The higher engagement from younger customers reflects some success in communication strategies, but also highlights the need to appeal to a broader age group for inclusive growth.

In conclusion, while cooperative banks are trusted and valued for their ethical and community-driven approach, they must prioritize digital transformation, enhance service quality, and invest in awareness-building to ensure sustainable growth and broader market reach.

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