*Original Research Article*

Constraints faced by Urban Cooperative Banks in Funds and Investment Management

**ABSTRACT**

**Aims:** With a focus on their socioeconomic importance in urban and semi-urban regions, the essay offers a thorough analysis of the difficulties Urban Cooperative Banks (UCBs) encounter when managing capital and investments. It looks at things like operational inefficiencies, complicated regulations, scarce resources, and pressure from other financial institutions to compete. It investigates topics such as non-performing assets, fraud prevention, contemporary banking services, loan and deposit mix, and regulatory compliance through the examination of primary data. The paper identifies systemic barriers and suggests technology adoption, improved employee training, and strategic policy changes to increase UCBs' operational effectiveness and resilience while upholding their core cooperative values.

**Methodology:** The study used stratified sampling, selecting 12 UCBs across Kerala's regions, with three directors representing diverse categories.

**Results:** The report emphasises the difficulties Urban Cooperative Banks (UCBs) encounter when managing their funds and investments. High non-performing assets (NPAs), a lacklustre technology infrastructure, and deficiencies in personnel training are among the main conclusions. Regular policy changes make it more difficult to comply with regulations. The mix of loans and deposits shows weaknesses in using analytics and adjusting to market conditions. Updated systems and improved training are necessary for fraud prevention measures. Customer resistance and integration issues are limiting the uptake of contemporary financial services. Among the suggestions include diversifying financial goods, using cutting-edge technologies, providing personnel training, and enhancing infrastructure.

**Conclusion:** Urban Cooperative Banks face regulatory constraints, limited funding, insufficient technology, and training gaps. Investments in modern tools, proactive compliance, and enhanced training programs are essential for growth and resilience.

**Keywords:** UCBs, Fund Management, Investment Management, Garrett’s ranking, Constraints

1. INTRODUCTION

Urban Cooperative Banks (UCBs) have been instrumental in fostering financial inclusion and serving the socio-economic needs of urban and semi-urban communities. Unlike their commercial adversaries, these banks emphasise trust and mutual benefit while functioning inside a cooperative framework. However, there are numerous barriers to their financial management, especially when it comes to investment and funds circulation. These issues are caused by operational inefficiencies, regulatory constraints, and a lack of resources (Reserve Bank of India, 2020). UCBs' operational autonomy is frequently complicated by their dual regulatory structure, which is overseen by the Reserve Bank of India (RBI) and the corresponding state cooperative administrations. Effective fund management is hampered by this dual control, which restricts their capacity to react quickly to market situations, according to studies (Singh & Reddy, 2019). Furthermore, UCBs frequently have insufficient financial bases, which limits their ability to make investments in infrastructure and technology for contemporary banking services (Mohan, 2021). The growing rivalry from commercial banks and non-banking financial institutions further exacerbates the limitations in funds and investment management. These banks play a vital role in meeting the financial requirements of small and medium-sized businesses, but they are frequently limited in their ability to obtain long-term funding, which affects their choice of investments (Patil, 2018).

2. methodology

A multi-stage stratified sampling technique was used for the study. In the first stage, the state of Kerala is divided into three regions – North, Central and South based on its topography. In the second stage, two districts are selected from each region based on the largest number of UCBs registered on 31st March 2022. Accordingly, Malappuram and Kozhikode districts were chosen from the northern region, Thrissur and Ernakulam districts from the Central region, and Kottayam and Thiruvananthapuram districts from the southern region. Three UCBs from each district will be selected for study based on their performance. From the selected twelve banks, three members of each bank's board of directors will represent women, professional directors, and general.

**3**. **RESULTS AND DISCUSSIONS**

**3.1 Socio-Economic Profile of Respondents**

The table provides a demographic and professional profile of the respondents involved in the study. It categorizes the participants based on variables such as age, gender, representation, educational qualification, region, and years of experience in banking, both in the current position and overall. The data is presented in terms of frequency and percentage, offering insights into the composition of the study sample and their professional background.

Table 1 Socio-Economic Profile of Respondents

|  |  |  |  |
| --- | --- | --- | --- |
| **VARIABLE** | **CATEGORY** | **FREQUENCY** | **PERCENTAGE** |
| **AGE** | Up to 20 | 0 | 0 |
| 20-30 | 0 | 0 |
| 30-40 | 7 | 19.44 |
| 40-50 | 29 | 80.56 |
| Above 50 | 0 | 0 |
| **Total** | **36** | **100** |
| **GENDER** | Female | 14 | 38.89 |
| Male | 22 | 61.11 |
| **Total** | **36** | **100** |
| **REPRESENTATIONS** | General Director | 12 | 33.33 |
| Professional Director | 12 | 33.33 |
| Women Director | 12 | 33.33 |
| **Total** | **36** | **100** |
| **EDUCATIONAL QUALIFICATION** | UG | 11 | 30.56 |
| PG | 18 | 50.00 |
| Others | 7 | 19.44 |
| **Total** | **36** | **100** |
| **REGION** | South | 12 | 33.33 |
| Central | 12 | 33.33 |
| North | 12 | 33.33 |
| **Total** | **36** | **100** |
| **YEARS OF EXPERIENCE IN PRESENT BANKING** | 1-5 Years | 9 | 25.00 |
| 5-10 Years | 4 | 11.11 |
| 10-15 Years | 23 | 63.89 |
|  |  |  |
| **YEARS OF EXPERIENCE IN BANKING** | 1-5 Years | 5 | 13.89 |
| 5-10 Years | 21 | 58.33 |
| 10-15 Years | 9 | 25.00 |
| Above 15 Years | 1 | 2.78 |
|  | **Total** | **36** | **100** |

Source: Primary Data

The majority of respondents (80.56%) are in the age group of 40-50 years, indicating a focus on middle-aged professionals with significant industry experience, while no participants fall under the categories of below 20, 20-30, or above 50 years. Male respondents (61.11%) outnumber female respondents (38.89%), highlighting a gender disparity among the participants. An equal representation is observed among General Directors, Professional Directors, and Women Directors, each constituting 33.33% of the sample. Most participants hold postgraduate qualifications (50%), followed by those with undergraduate degrees (30.56%) and others (19.44%), reflecting a well-educated respondent group. With respondents equally split across the South, Central, and North regions (33.33% each), the sample is regionally balanced. Although the majority of respondents (58.33%) have 5–10 years of total banking experience, followed by 25% with 10-15 years and a small percentage (2.78%) with over 15 years, the majority (63.89%) have 10–15 years of experience in their current banking roles, demonstrating a seasoned workforce.

3.2 Non - Performing Assets

Non-Performing Assets (NPAs) are advances and loans for which the borrower has ceased principle or interest payments for a predetermined amount of time. Because NPAs lower revenue while raising provisioning needs, they have a detrimental effect on a bank's profitability, liquidity, and operational effectiveness. Sustaining financial stability and stakeholder trust requires effective NPA management. The table assesses the main elements that affect banks' NPA management, such as personnel training, technology support, profitability, process efficiency, and fund accessibility. The study finds areas of strength and limitations in efficiently managing non-performing assets (NPAs) by examining these factors.

Table 2. Non-Performing Assets

|  |  |  |  |
| --- | --- | --- | --- |
| **SL.NO.** | **NON-PERFORMING ASSETS** | **SCORE** | **RANK** |
| 1 | The bank’s profitability can be enhanced by reducing the level of NPA’s | 1485 | 4 |
| 2 | The process of identifying and managing NPAs is efficient in our bank. | 2008 | 2 |
| 3 | The bank has access to diverse sources of funds for managing NPAs | 2188 | 1 |
| 4 | The bank has sufficient technological support to manage NPAs effectively. | 1765 | 3 |
| 5 | The bank's staff are adequately trained to handle NPAs. | 1482 | 5 |

Source: Primary Data

The highest-ranked factor is the bank's access to diverse sources of funds for managing NPAs, with a score of 2188 and an average of 60.78, highlighting its critical role in addressing NPA challenges. Efficient identification and management of NPAs are ranked second (score: 2008, average: 55.78), emphasizing the importance of streamlined processes. Technological support ranks third (score: 1765, average: 49.03), indicating the need for enhanced digital tools and systems. The ability to enhance profitability through NPA reduction ranks fourth (score: 1485, average: 41.25), and staff training ranks last (score: 1482, average: 41.17), revealing a gap in human resource development for NPA management.

The constraints in managing NPAs may arise due to limited access to long-term funding, inadequate technological infrastructure, and a lack of specialized training for bank staff. Additionally, inefficient credit monitoring and weak recovery mechanisms exacerbate the problem.

3.3 Frauds and Misappropriations

Financial stability and trust are seriously threatened by banking frauds and misappropriations. These occurrences may lead to monetary losses, harm to one's reputation, and interruptions in business operations. To stop and deal with fraudulent activity, effective methods like strong internal controls, frequent audits, thorough training programs, and proactive risk management policies are crucial. Using scores, averages, and rankings, the table assesses the relative importance and efficacy of several elements related to bank fraud prevention and management.

Table 3. Frauds and Misappropriations

|  |  |  |  |
| --- | --- | --- | --- |
| **SL.NO.** | **FRAUDS AND MISAPPROPRIATIONS** | **SCORE** | **RANK** |
| 1 | The bank has implemented measures to address and prevent fraud incidents effectively in the past five years. | 2146 | 2 |
| 2 | The bank has been actively addressing and managing issues related to the proper use of funds | 2050 | 3 |
| 3 | The internal control systems are adequate to mitigate risks of misappropriation. | 2147 | 1 |
| 4 | There are regular audits to ensure the effectiveness of internal controls | 1608 | 5 |
| 5 | The bank regularly reviews and updates its risk management policies. | 1820 | 4 |
| 6 | Staff members are well-trained to detect and prevent fraudulent activities. | 1002 | 6 |

Source: Primary Data

With a score of 2147 and an average of 59.64, the factor that is placed highest is the effectiveness of internal control mechanisms in reducing the risks of misappropriation, highlighting the vital role that robust internal frameworks play. The efficiency of the measures put in place to address and prevent fraud incidences over the last five years is reflected in their ranking second (score: 2146, average: 59.61). Third place goes to the bank's proactive measures to prevent and control fund misuse (score: 2050, average: 56.94). Frequent audit effectiveness scores sixth (score: 1608, average: 44.67), while regular risk management policy updates rank fourth (score: 1820, average: 50.56). There is a notable gap in staff training in detecting and preventing fraud, as it ranks lowest (score: 1002, average: 26.94).

Inadequate staff training programs, antiquated risk management guidelines, and inadequate auditing procedures can all be contributing factors to fraud prevention limitations. Reliance on human procedures and a lack of technological integration for fraud detection might make the problem worse.

3.4 Modern Banking Services

In order to improve operational efficiency, customer happiness, and competitiveness for banks, modern banking services—which include digital and technology-driven solutions like online banking, mobile apps, and automated processes—are essential. These services allow banks to streamline their operations while providing customers with convenience and flexibility. Nevertheless, there are drawbacks to implementing contemporary financial services, such as the requirement for infrastructure, integration difficulties, and client flexibility. Based on scores, averages, and rankings, the table assesses a number of aspects related to contemporary banking services, emphasising both their strengths and areas in need of development.

Table 4. Modern Banking Services

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **SL.NO.** | **MODERN BANKING SERVICES** | **SCORE** | **AVERAGE** | **RANK** |
| 1 | The bank's current infrastructure effectively supports modern banking services. | 2114 | 58.72 | 1 |
| 2 | Integrating modern banking services with existing systems presents opportunities for growth and improvement. | 1388 | 38.56 | 5 |
| 3 | Customers are well-informed about the modern banking services offered by the bank. | 1880 | 52.22 | 2 |
| 4 | Customers are open to adopting modern banking services. | 1751 | 48.64 | 4 |
| 5 | The benefits of implementing modern banking services outweigh the high costs involved. | 1810 | 50.28 | 3 |

Source: Primary Data

The effectiveness of the bank's current infrastructure in providing contemporary financial services is the most highly scored factor (score: 2114, average: 58.72), highlighting the significance of a strong foundation. Second place goes to customers who are knowledgeable about the services (score: 1880, average: 52.22), demonstrating the beneficial effects of awareness campaigns. Potential long-term benefits are indicated by the third-ranked perceived benefits of introducing modern services outweighing expenses (score: 1810, average: 50.28). Fourth place goes to customer openness to embracing modern services (score: 1751, average: 48.64), indicating a modest level of adoption. Modern service integration with current systems comes in last (score: 1388, average: 38.56), indicating serious difficulties in this area.

Limitations in outdated infrastructure, high implementation costs, client resistance to change, and a lack of awareness campaigns can all be obstacles to the adoption of modern banking services. Furthermore, it can be difficult and resource-intensive to integrate contemporary services with pre-existing systems.

**3.5 Monetary Policy**

The central bank of a nation implements monetary policy, which controls the money supply, interest rates, and availability of credit in the economy. It has a major impact on lending, investment strategies, and profitability, all of which have an impact on banking operations. For banks to maximise performance and efficiently manage risks, they must adjust to shifts in monetary policy. In order to identify the most important influences, the table ranks the many facets of how monetary policy affects banking operations according to their averages and scores.

Table 5. Monetary Policy

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **SL.NO.** | **MONETORY POLICY** | **SCORE** | **AVERAGE** | **RANK** |
| 1 | Frequent changes in monetary policy provide opportunities for banks to adopt their investment planning strategies. | 2081 | 57.8 | 2 |
| 2 | The bank actively adjusts its investment strategies in response to changes in monetary policy | 2102 | 58.38 | 1 |
| 3 | Interest rate fluctuations due to monetary policy changes contribute positively to the banks profitability. | 1453 | 40.36 | 5 |
| 4 | Regulatory requirements linked to monetary policy supports the bank’s operations. | 1518 | 42.16 | 4 |
| 5 | High interest rates set by monetary policy enhance the bank’s ability to manage its lending practices. | 1764 | 49 | 3 |

. Source: Primary Data

The bank's capacity to proactively modify its investment plans in reaction to shifts in monetary policy is the most highly scored factor (score: 2102, average: 58.38), demonstrating proactive flexibility. Second place goes to regular monetary policy changes that offer chances for investment planning, emphasising banks' tactical adaptations (score: 2081, average: 57.8). Third place goes to high interest rates that encourage lending practices (score: 1764, average: 49), indicating the beneficial impact on lending capacities. Monetary policy-related regulatory requirements come up at number four (score: 1518, average: 42.16), suggesting a reasonable level of operational congruence. Profitability-boosting interest rate changes rank lowest (score: 1453, average: 40.36), indicating little gain in this area.

Delays in investment strategy revisions, a lack of technology instruments for predictive analysis, and a lack of financial flexibility can all be obstacles to responding to monetary policy. Effective adaptation may also be hampered by strict regulatory frameworks and high compliance costs. Unpredictable changes in interest rates can also lead to uncertainty, which can have an impact on profitability.  
**3.6 Deposit mix**

The deposit mix refers to the variety of deposit products offered by a bank to meet the varying needs of its customers. It is crucial to assessing a bank's cost of funds, liquidity position, and overall profitability. An ideal deposit mix provides a consistent supply of cash while allowing for flexibility to respond to changes in interest rates and customer preferences. The table assesses the effectiveness of a bank's deposit management methods and infrastructure, ranking the categories based on their scores and averages.

Table 6. Deposit Mix

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **SL.NO.** | **DEPOSIT MIX** | **SCORE** | **AVERAGE** | **RANK** |
| 1 | The bank offers a wide variety of deposit products to cater to different customer needs | 1451 | 40.31 | 4 |
| 2 | The bank’s deposit mix effectively adjusts to change in interest rates | 1958 | 54.39 | 2 |
| 3 | The bank has effective strategies to manage the impact of interest rate changes on our deposit mix. | 2128 | 59.11 | 1 |
| 4 | Our bank has the necessary technological infrastructure to manage and promote various deposit schemes effectively. | 1963 | 54.53 | 3 |
| 5 | Bank actively educate customers to balance their deposit preferences with the bank’s needs. | 1421 | 39.47 | 5 |

Source: Primary Data

The highest-ranked aspect is the bank's successful tactics for managing the impact of interest rate changes on its deposit mix (score: 2128, average: 59.11), indicating a proactive risk-mitigation approach. The bank ranks second for its capacity to effectively shift its deposit mix in response to interest rate changes (score: 1958, average: 54.39), demonstrating adaptability. The availability of suitable technological infrastructure to handle and promote deposit schemes is ranked third (score: 1963, average: 54.53). Offering a diverse range of deposit products to meet different client demands comes fourth (score: 1451, average: 40.31), while attempts to educate customers about balancing deposit preferences rank last (score: 1421, average: 39.47).

Constraints in controlling the deposit mix may develop as a result of insufficient technological infrastructure, a lack of client understanding about the benefits of specific deposit products, and a limited ability to adjust to quick interest rate variations. Other issues include intense rivalry among banks and a lack of innovation in deposit systems designed to attract and keep consumers.

**3.7 Loan Mix**

A loan mix is the makeup of loans in a bank's portfolio, which includes diverse types such as corporate, retail, housing, and personal loans. A diverse loan mix is critical for maintaining consistent revenue streams and limiting the risks associated with economic swings. However, an unbalanced or poorly managed loan mix can expose banks to risks such as over-reliance on specific industries or weaknesses during economic downturns.

Table 7. Loan Mix

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **SL.NO.** | **LOAN MIX** | **SCORE** | **AVERAGE** | **RANK** |
| 1 | The bank has a diverse loan portfolio. | 2091 | 58.08 | 1 |
| 2 | The bank has robust strategies to manage risks associated with our loan mix. | 1907 | 52.97 | 2 |
| 3 | The bank’s existing technology infrastructure is effectively managing its diversified loan portfolio. | 1445 | 40.14 | 5 |
| 4 | Access to advanced analytics tools enhances our ability to optimize the bank’s loan mix. | 2219 | 45.81 | 4 |
| 5 | Economic conditions significantly impact the performance of bank’s loan portfolio. | 1799 | 49.44 | 3 |

Source: Primary Data

The table ranks the primary factors impacting the bank's loan mix according to scores and averages. The variety of the loan portfolio is the highest-ranked element, with a score of 2091 and an average of 58.08, indicating its importance in stabilising the bank's financial performance. The second-ranked risk management techniques indicate the bank's attempts to mitigate risks linked with its loan mix. The bank's IT infrastructure, on the other hand, received the lowest ranking, showing that there is still potential for improvement in using technology to efficiently manage the diverse portfolio.  
Economic conditions and access to advanced analytics technologies are also cited as important considerations. While economic conditions have a substantial impact on loan performance (ranked third), the availability of analytics tools (ranked fourth) plays an important role in optimising the loan mix.

**3.8 Regulatory Compliance**

Regulatory compliance is an important part of the banking industry, ensuring that institutions follow the legal, ethical, and professional standards required for smooth operations. It entails enforcing laws, norms, and guidelines to mitigate risks such as financial fraud, data breaches, and operational inefficiencies. Failure to comply can result in severe penalties, reputational harm, and decreased customer trust.

Table 8. Regulatory Compliance

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **SL.NO.** | **REGULATORY COMPLIANCE** | **SCORE** | **AVERAGE** | **RANK** |
| 1 | The bank has a clear understanding of all regulatory requirements | 1636 | 45.44 | 3 |
| 2 | The bank’s staff is adequately trained to handle regulatory compliance related to funds and investment management | 2082 | 57.83 | 1 |
| 3 | Frequent changes in regulations offer opportunities for our bank to adapt and enhance its funds and investment management strategies. | 1546 | 42.94 | 5 |
| 4 | The bank’s technology and systems are adequate to meet regulatory compliance requirements. | 1624 | 45.11 | 4 |
| 5 | The bank allocates sufficient resources to ensure regulatory compliance in funds and investment management. | 2076 | 57.67 | 2 |

Source: Primary Data

The table evaluates a bank's performance in meeting regulatory compliance requirements across five parameters. It ranks these factors based on their scores and averages, highlighting areas of strength and those requiring improvement. For instance, staff training (rank 1) and resource allocation (rank 2) are well-handled, whereas adapting to frequent regulatory changes ranks lowest, pointing to a key weakness.

The challenges faced by banks in regulatory compliance may include limited technological capacity, inadequate staff training, insufficient financial resources, or a lack of agility in responding to regulatory changes. Frequent amendments to regulations further exacerbate the difficulty in staying compliant.

**CONCLUSION**

The report emphasises the operational limits, legal complexity, and resource scarcity that Urban Cooperative Banks (UCBs) encounter when managing finances and investments. The results show that inadequate training, antiquated technology, and a lack of funding have resulted in gaps in the management of non-performing assets (NPAs), fraud prevention, and the integration of contemporary banking services. Economic volatility and compliance issues still exist, notwithstanding UCBs' capabilities in managing diversified loan portfolios and adjusting investment strategies to monetary policy changes. In order to maximise service delivery and regulatory alignment, as well as to ensure financial resilience and growth, it is advised to use cutting-edge technologies for real-time analytics, improve staff competencies, and cultivate consumer awareness.

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Authors have declared that they have no known competing financial interests OR non-financial interests OR personal relationships that could have appeared to influence the work reported in this paper.

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