IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

NPA's AND FRAUD IN COOPERATIVE BANKING: A CASE STUDY OF NEW INDIA CO-OPERATIVE BANK

P. Manoj Kumar, Dr. S. Shireesha, Dr. T. Vara Lakshmi
Student, MBA, MBA Department, Professor & HOD MBA Department
Masters Of Business Administration,
Institute of Aeronautical Engineering, Hyderabad, India

Abstract: The strength of any banking system is fundamentally reliant on sound and effective practices for managing credit risk; strong governance and sound management practices, followed by transparency of financial practices. Banks have recently experienced major challenges as a result of the increasing incidence of Financial Fraud as well as also Non-Performing Assets (NPAs), particularly in the area of Co-operative banking. This research examines Governance Failures and systemic weaknesses leading to the failure of cooperative banks, with a focus on one case study, the New India Co-operative bank financial fraud discovered in 2025 when more than ₹122 crore was discovered to be misappropriated and NPAs of over ₹400 crore existed. The investigation by the Reserve Bank of India revealed there was much scrutiny to prevent these failures from occurring; however, through lack of due diligence on the part of borrowers, continued processes to approve irregular loans, and due to collusion within institutions there were gaps in Internal Controls/Processes; Supervisory Gaps.

The researcher adopted a case study-based qualitative exploratory method; and primarily utilized secondary data sources including regulatory reports, financial statements, and previous published literature. The case study indicates that weak internal controls, poor audit processes, and lack of on-line access contributed to the accumulation of NPAs and delayed detection of fraud by banking institutions. As a result, the researcher presented a new conceptual framework (based on Technology with Artificial Intelligence (AI) and Machine Learning (ML)) to be implemented by Banks to Improve Credit Risk Assessment, Enhance Early Detection of Fraud, and Improve Overall Governance/Control of Banking Institutions.

Keywords: Non-Performing Assets (NPAs), Cooperative Banks, Fraud Detection, Governance, Artificial Intelligence, Machine Learning, Credit Risk Management.

I. INTRODUCTION

Three key factors will assist in ensuring the stability of the banking system: good practice in credit risk management, governance and financial practices. The rapid growth of Non-Performing Assets (NPAs) and financial frauds has raised alarm bells for banks, especially for co-operative banking. Urban co-operative banks help with financial inclusion and membership issues but often have many structural limitations, one example being inadequate internal control processes, unreliable risk assessment models and limited access to new technology.

In India, the Reserve Bank (RBI) has stated that there has been some improvement in levels of NPAs in all sectors over the last few years, however, co-operative banks still experience high levels of NPAs when compared to other sectors. For example, the New India Co-operative Bank Fraud occurred in 2025, which involved ₹122 crore being misappropriated and NPAs exceeding ₹400 crore due to non-standard loan approvals and collusion at the Bank.

The purpose of this paper is to look at the causes of NPAs and governance failure within the co-operative bank sector using the above example. This paper will also present a new technology-based framework that uses Artificial Intelligence (AI) and Machine Learning (ML) techniques to enhance fraud detection, improve credit risk management, and improve the stability of the banking sector.

OBJECTIVES

- To study the key factors contributing to the rise of Non-Performing Assets (NPAs) in urban cooperative banks.
- To examine governance failures, internal control weaknesses, and regulatory gaps using the 2025 New India Co-operative Bank fraud case.
- To evaluate the effectiveness of Reserve Bank of India (RBI) guidelines in preventing financial fraud and managing credit risk.
- To suggest measures for improving financial sustainability, governance, and risk management practices in cooperative banks.

SCOPE OF THE STUDY

This research will assess both Non-Performing Assets (NPAs) and governance issues of urban cooperative banks in India in relation to the upcoming 2025 New India Cooperative Bank fraud, through a mixture of secondary sources including documents released by the Reserve Bank of India and scholarly articles.

In this process we will take a close look at credit risk management, internal controls, and fraud prevention and detection measures, using artificial intelligence (AI) and machine learning (ML) as an analytical framework to provide enhanced risk management tools and mechanisms. The research is entirely theoretical and does not contain any empirical data collection or analysis.

PROBLEM STATEMENT

As the number of Non-Performing Assets (NPAs) and instances of financial fraud are continuing to increase, it has become increasingly clear that there are serious deficiencies related to governance, internal controls, and credit risk management. While the Reserve Bank of India exerts regulatory oversight over urban cooperative banks, problems with respect to the verification of borrowers, grant of loans, and detection of financial anomalies continue to exist.

A fraud case involving the New India Co-operative Bank in 2025 that resulted in a very significant misappropriation of funds and a large number of NPAs illustrates the failure of the traditional systems for auditing and monitoring the governance of such banks. These types of challenges further demonstrate the need for improved technology-based solutions that promote greater transparency, more effective risk assessment, and earlier identification of instances of fraud in cooperative banking.

LITERATURE REVIEW

The problem of Non-Performing Assets (NPAs) and financial fraud has been widely studied in the banking sector, with a focus on credit risk management and governance practices. Existing studies indicate that rising NPAs are primarily associated with weak credit appraisal systems, inadequate monitoring, and ineffective recovery mechanisms. These issues are more pronounced in urban cooperative banks due to structural limitations such as poor internal controls, limited technological adoption, and governance inefficiencies.

- Mishra and Sharma (2022) report that urban cooperative banks in India exhibit higher NPA ratios compared to other banking segments, largely due to deficiencies in borrower evaluation and post-loan monitoring.
- Singh and Mehta (2021) identify governance failures, including lack of transparency and weak oversight, as key contributors to financial instability in cooperative banking institutions.
- Kalyani and Gupta (2023) demonstrate that AI-based models enhance credit risk assessment and fraud detection by analysing large datasets and identifying hidden patterns.
- Patel (2020) also finds that machine learning algorithms, such as decision trees and neural networks, are more effective than traditional methods in detecting complex fraud patterns.

- Das and Roy (2021) argue that digital transformation strengthens internal controls and enhances transparency in banking systems.

Despite these advancements, gaps remain in the adoption and implementation of technology-driven solutions in cooperative banks. Therefore, there is a need for integrating AI and ML techniques with existing governance frameworks to improve fraud detection, credit risk management, and overall financial stability.

METHODOLOGY

RESEARCH DESIGN

This study adopts a case study-based exploratory and analytical research design, focusing on the 2025 fraud case of New India Co-operative Bank. The research primarily relies on secondary data sources, including RBI reports, financial statements, audit findings, and published literature on NPAs and banking fraud. Qualitative analysis is used to identify governance failures and systemic weaknesses, while basic quantitative analysis is employed to examine NPA trends. Additionally, the study proposes a conceptual technology-driven framework incorporating Artificial Intelligence and Machine Learning techniques for enhanced fraud detection and risk management.

DATA COLLECTION

The research primarily relies on secondary data obtained from reports, guidelines, and publications issued by the Reserve Bank of India, along with relevant research articles and case-related information. Data collection is conducted through document analysis, focusing on loan approval processes, NPA classification, and fraud patterns.

TABLE 1: NEW INDIA CO-OPERATIVE BANK FRAUD (2025) – RBI & CASE DATA

PARAMETER	DETAILS
Total Fraud Amount	₹122 Crore
Cash Discrepancy Identified by RBI	₹112 crore (Prabhadevi branch) + ₹10 crore (Goregaon branch)
Nature of Fraud	Cash misappropriation from bank vaults over multiple years
Period of Fraud	2019/2020 – 2025 (approx. 5–6 years)
Key Account Type Involved	Internal bank cash accounts (not individual loan accounts)
Number of Accused Persons	10 primaries accused (as per chargesheet)
Number of Arrests	7–8 arrests during investigation
Bank Customers / Accounts Affected	~1.3 lakh depositors impacted indirectly
Detection Authority	Reserve Bank of India inspection (Feb 2025)
Key Governance Failure	Weak internal controls, manual record manipulation
RBI Action Taken	Board superseded, administrator appointed, restrictions imposed

INTERPRETATION:

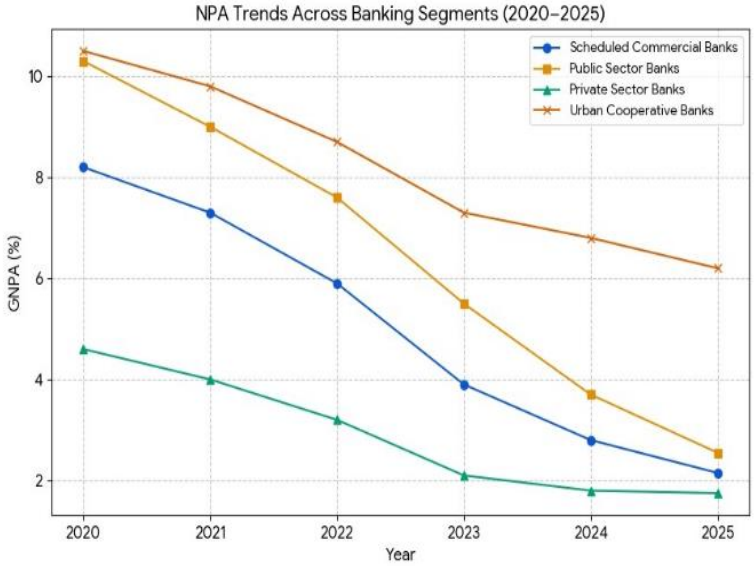
The table shows that the fraud in New India Co-operative Bank was large-scale (₹122 crore) and continued for 5–6 years without detection. It mainly involved internal cash misappropriation, indicating serious internal control failures rather than customer-related issues. The involvement of multiple accused persons and delayed detection by the RBI highlights weak governance, poor monitoring systems, and lack of transparency in operations. The impact on 1.3 lakh depositors shows the broader risk to public trust.

TABLE 2: NPA COMPARISON ACROSS BANKING SEGMENTS (2024–25)

BANKING SEGMENT	GROSS NPA RATIO (%)	NET NPA RATIO (%)	KEY OBSERVATION
Scheduled Commercial Banks	2.1 – 2.2	~0.5	Strong asset quality, improved recovery
Public Sector Banks	2.5 – 2.6	~0.6	Higher NPAs but declining trend
Private Sector Banks	1.7 – 1.8	~0.4	Better risk management practices
Foreign Banks	0.8 – 0.9	~0.3	Lowest NPAs, strong internal controls
Urban Cooperative Banks	~6.2	~0.7	High NPAs, governance challenges

INTERPRETATION:

The table indicates that Urban Cooperative Banks have the highest NPA levels (~6.2%) compared to all other banking segments. In contrast, Foreign and Private Banks have the lowest NPAs, reflecting strong risk management and internal controls. This comparison clearly shows that cooperative banks suffer from poor credit appraisal systems, weak governance, and inefficient recovery mechanisms, making them more vulnerable to financial instability.



FRAUD IMPACT SUMMARY

Metric	Pre-Fraud (2020)	Post-Fraud Discovery (2025)
Gross NPA	$5.8%	Approx. 12.5%
Cash in Vault	₹142 Crore (Reported)	₹122 Crore (Missing/Stolen)
Capital Adequacy	$12.4%	$-4.2% (Insolvent)
Real Estate Exposure	$11.4%$	$35.6% (Concentration Risk)

INTERPRETATION

The data shows a significant deterioration in financial health after fraud detection. Gross NPA nearly doubled (5.8% → 12.5%), and capital adequacy turned negative (-4.2%), indicating insolvency. The sharp rise in real estate exposure (11.4% → 35.6%) highlights high concentration risk and poor lending decisions. Overall, the fraud severely weakened the bank's financial stability and sustainability.

FINDINGS

- High NPA Burden in Cooperative Banks:

Urban Cooperative Banks recorded a significantly higher Gross NPA ratio of around 6.2%, compared to 1.7–2.6% in other banking segments.

- Large-Scale Fraud Due to Internal Failures:

The New India Co-operative Bank fraud (2025) involved ₹122 crore misappropriation over 5–6 years

- Delayed Detection and Regulatory Gaps:

The fraud was detected only during RBI inspection in 2025, despite occurring since 2019.

The fraud indirectly affected around 1.3 lakh depositors, reducing public confidence in cooperative banking institutions.

SUGGESTIONS

Strengthening Internal Control Systems:

Cooperative banks should implement robust internal control mechanisms such as dual authorization (maker–checker system), automated reconciliation, and segregation of duties to prevent manipulation of records and unauthorized transactions.

Adoption of AI and Machine Learning Technologies:

Banks should integrate Artificial Intelligence (AI) and Machine Learning (ML) tools for real-time fraud detection, anomaly identification, and predictive credit risk assessment, reducing dependence on manual processes.

Improvement in Credit Appraisal and Monitoring:

Loan approval processes must be strengthened through comprehensive borrower background checks, credit scoring models, and continuous post-disbursement monitoring to minimize the risk of NPAs.

Digital Transformation of Banking Operations:

Banks should shift from manual systems to fully digitized and integrated banking platforms, ensuring transparency, traceability, and better data management.

Ensure Diversification & Risk Control:

Avoid sector concentration (e.g., real estate) through balanced lending strategies.

CONCLUSION

The study concludes that rising NPAs and financial fraud in cooperative banks are primarily due to weak governance, poor internal controls, and inadequate risk management systems. The New India Co-operative Bank case clearly demonstrates how manual processes, lack of supervision, and collusion can lead to large-scale financial failure. Compared to other banking sectors, cooperative banks remain highly vulnerable due to limited technological adoption and inefficient monitoring mechanisms.

To address these issues, the study emphasizes the need for technology-driven solutions such as Artificial Intelligence (AI) and Machine Learning (ML) to improve fraud detection, credit risk assessment, and transparency. Strengthening regulatory oversight, improving audit systems, and adopting modern banking technologies are essential to ensure the long-term stability and trustworthiness of cooperative banks.

REFERENCES

- Reserve Bank of India (RBI). (2024). Report on Trend and Progress of Banking in India 2023–24. Mumbai: RBI.
- Reserve Bank of India (RBI). (2025). Inspection Report and Regulatory Action on New India Co-operative Bank. Mumbai: RBI.
- Kalyani, S., & Gupta, R. (2023). Application of Artificial Intelligence and Machine Learning in Banking Sector: A Systematic Review. International Journal of Financial Studies, 11(2), 45–60.
- Mishra, P., & Sharma, V. (2022). Credit Risk Management and NPAs in Urban Cooperative Banks in India. Journal of Banking and Finance Research, 8(1), 22–35.
- Singh, R., & Mehta, A. (2021). Governance Failures in Cooperative Banking Institutions: Evidence from India. Asian Economic Review, 63(3), 145–158.
- Patel, N. (2020). Fraud Detection in Banks using Machine Learning Techniques. International Journal of Computer Applications, 176(12), 10–16.
- Reserve Bank of India (RBI). (2023). Master Directions on Urban Cooperative Banks. Mumbai: RBI.