BANKS AND FINANCIAL INCLUSION

Urban Co-operative Banks and Financial Inclusion: Evidence from The Nanded Merchants Co-operative Bank Ltd.

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Abstract

Urban Co-operative Banks (UCBs) serve small traders, salaried workers and low-income households that larger banks often under-serve. This paper examines how one such bank, The Nanded Merchants Co-operative Bank Ltd., delivers banking operations and customer service, and what this implies for financial inclusion. The study is a descriptive, exploratory case study based on a one- month internship (15 June to 15 July 2026), supported by RBI publications. Observation of loan processing, account opening, KYC and day-to-day customer handling shows that relationship-based service, low documentation barriers and guarantor-backed lending extend credit to customers who may lack formal credit histories. The same practices create costs: manual processes, heavy documentation and dependence on guarantors slow service and raise recovery risk. The paper concludes that UCBs remain effective channels of inclusion, and that fuller digitisation and stronger credit monitoring would improve their reach and resilience.

Keywords: urban co-operative banks; financial inclusion; loan processing; customer service; core banking; India

1 Introduction

Banks mobilise savings from people with surplus funds and lend to those who need finance, which supports trade, enterprise and local growth. The Indian system includes public and private sector banks, foreign banks, regional rural banks and co-operative banks. Co-operative banks differ from the others in being locally rooted: their depositors, borrowers and staff often know each other.

Urban Co-operative Banks are primary co-operative banks in towns and cities. They typically serve small traders, merchants, salaried employees, self-employed people and self-help groups. Because they sit close to their customers, they can accept simpler documentation and tailor loans to local circumstances, which is why they matter for financial inclusion.

Most studies of UCBs rely on aggregate RBI data. Few describe what happens inside a branch: how a loan file is built, how KYC is checked, or where manual work still slows service. This paper addresses that gap using first-hand internship observation at The Nanded Merchants Co-operative Bank Ltd., a UCB headquartered in Nanded, Maharashtra.

2 Objectives of the study

1. To describe the daily operations and customer service practices of the bank.

2. To document the account opening, KYC and deposit processes.
3. To describe loan products and the loan processing sequence.
4. To identify benefits and challenges of the UCB model for financial inclusion.
5. To suggest practical improvements.

3 Policy and sector context

Regulatory framework. On the recommendation of the Expert Committee on Urban Co-operative Banks, the RBI replaced its two-tier classification with a four-tier framework based on deposit size in

2022. The framework balances the mutual character of small banks against the growth ambitions of larger ones.

Table 1. Revised four-tier regulatory framework for urban co-operative banks.

Tier	Deposit size	Minimum CRAR
Tier 1	Up to ₹100 crore (all unit and salary-earner UCBs regardless of size)	9%
Tier 2	Above ₹100 crore, up to ₹1,000 crore	12%
Tier 3	Above ₹1,000 crore, up to ₹10,000 crore	12%
Tier 4	Above ₹10,000 crore	12%

The RBI also allowed UCBs that meet its Financially Sound and Well Managed criteria to open new branches through an automatic route (RBI, 2022). Licensing and classification are now consolidated in the RBI (UCBs – Licensing, Scheduling and Regulatory Classification) Guidelines, 2025. The bank's reported business volume of about ₹1,500 crore suggests it falls in a lower tier, but its deposit size must be confirmed from the bank before the tier is stated in the final paper.

Asset quality trend. The RBI reported that UCB gross NPA ratios improved in 2021-22 for the first time since 2012-13, after deteriorating each year from 2015-16 to 2020-21. Improvement continued in 2023-24, the third consecutive year. In the latest report, UCB GNPA fell to 6.2% (RBI Report on Trend and Progress of Banking in India 2024-25, as summarised by a secondary source). This is still well above the 2.2% for scheduled commercial banks in March 2025, so credit quality remains the sector's main weakness.

4 Research methodology

The study is a descriptive and exploratory case study of one UCB. It does not test statistical hypotheses; it documents practice and interprets it against the sector context in Section 2.

Primary data. First-hand observation during a one-month internship (15 June to 15 July 2026) at the bank's branch, informal conversations with staff, and guidance from the industry mentor. Tasks covered customer handling, account opening and KYC, deposit procedures, document verification, banking software and loan file preparation.

Secondary data. RBI reports and directions, banking textbooks and published articles.

Scope and limits. One branch, one month, and no customer survey. Findings describe processes seen and should not be generalised to all UCBs. Sector figures come from the RBI and are labelled as sector-wide, not bank-specific.

5 The bank: profile and services

The Nanded Merchants Co-operative Bank Ltd. is an urban co-operative bank headquartered on Mahatma Gandhi Road, Nanded, Maharashtra, established in 1963 and regulated by the RBI. It describes itself as "Jan Samanyanchi Bank" (the common person's bank). According to the bank's own materials as reported in the internship file, it operates 23 branches with a business volume of about ₹1,500 crore and reports no net NPA. These figures are self-reported and were not independently verified.

Table 2. Services of the bank observed or documented during the internship.

Area	Services observed or documented
Deposits	Savings, current, fixed and recurring deposits for individuals, senior citizens, trusts and businesses
Credit	Personal, salary, housing, gold, vehicle, education and FD-backed loans; working capital for MSMEs
Digital	Core banking solution (Trust Bank software), mobile app, UPI, NEFT, RTGS, IMPS, ATM and debit cards
Other	Safe deposit lockers, franking, insurance facilities, government social security schemes

The bank's community activities include tree plantation and Swachh Bharat drives, scholarships for weaker students, health camps and disaster relief.

6 Findings from internship observation

6.1 Account opening and KYC

KYC Account opening begins with collecting identity and address documents and verifying thema-gainst KYC norms. Staff explained the purpose of each document to customers, answered account queries and maintained passbooks and statements. Accurate records were treated as a basic control, since errors at this stage carry into every later transaction.

6.2 Deposit operations

The bank offers savings, current, fixed and recurring deposits. Interns observed deposit handling, the importance of accurate transaction records, and how staff encourage regular saving, particularly

through recurring deposits for small account holders.

6.3 Loan processing

Loan processing was partly manual and partly digital. The sequence observed was:

1. File opening. PAN, Aadhaar, salary slips, Form 16, bank statements and IT returns are collected and bound into a physical loan file.
2. Guarantor verification. Most unsecured loans follow a guarantor model; the guarantor's financial history and existing liabilities are checked.
3. CIBIL check and credit evaluation. A score below the bank's acceptable level can lead to rejection or a request for added collateral.
4. Software entry. Loan details, EMI, repayment terms and account status are entered in the Trust Bank software, and sanction letters are generated fromit.

5. Lien marking and security. For gold and FD-backed loans, lien letters are drawn up, ornaments are valued and custody is recorded.
6. Disbursement and repayment. After cross-checking, funds are released; customers may set a standing instruction to debit EMIs from their savings account.

The intern also maintained records of loan file charges (CIBIL, franking, processing fees, insurance and GST) that are verified before release.

6.4 Customer service and digital operations

Staff know many account holders personally, which supports relationship-based service. Transfers through RTGS and NEFT, locker bookkeeping, franking and cash handling support were observed.

Franking, lien posting, cheque entry and locker registers still involved manual steps, so the bank combines traditional and technology-based practice rather than operating a fully digital model.

7 Discussion: what the observations mean for financial inclusion

7.1 Benefits for financial inclusion

- Access to basic services. Savings, recurring and fixed deposits, and small loans are available to customers with limited documentation.
- Tailored credit. Loans are matched to the customer's profile, with short-term loans of up to about 2 years and housing loans of up to about 15 years (terms to be confirmed with the bank, as they vary by scheme).
- Relationship-based service. Personal familiarity builds trust and lets staff explain products, CIBIL results and government schemes.
- Local economic support. Lending to traders, small enterprises and self-help groups supports local activity.

7.2 Challenges

Table 3. Challenges observed and their effects.

Challenge	Observed effect
Manual workload	Franking, cheque entry and file movement slow service despite the core banking solution
Guarantor dependence	Unsecured loans rely on guarantors, which makes recovery harder after bounced cheques or delayed EMIs
Dual compliance	RBI and co-operative authority requirements add documentation and audit load on limited staff
Documentation intensity	CIBIL checks, salary slips, affidavits and lien marking lengthen sanction time
Partial digitisation	Locker registers, token systems and vault logs remain manual

7.3 The five propositions revisited

The internship report framed five propositions. Against the evidence gathered, they fare as follows.

Table 4. Assessment of the five propositions against the evidence gathered.

Proposition	Assessment
UCBs are an important channel of inclusion in semi-urban areas	Supported by observation of staff guiding customers through KYC and loan documentation
High NPAs limit capacity to include new borrowers	Plausible and consistent with the sector trend in Section 2, but not tested on this bank's own NPA data
UCBs face higher asset stress than other co-operative segments	Not supported by the RBI figures cited here: rural long-term co-operatives report far higher GNPA (over 38%) than UCBs (6.2%)
Incomplete digitisation reduces efficiency and reach	Supported by the manual steps observed
RBI reforms such as revised PSL norms can enhance impact	Plausible, but the specific PSL targets are not verified here

8 Recommendations and limitations

8.1 Recommendations

1. Digitise the remaining manual steps (franking records, lien posting, locker and vault registers) and add automated EMI reminders through the CBS.
2. Reduce guarantor dependence by strengthening credit appraisal, using CIBIL and cash-flow checks, and offering FD- or gold-backed products where suitable.
3. Standardise loan file checklists so that documents are verified once and tracked digitally, shortening sanction time.
4. Promote digital channels (UPI, mobile app) among small account holders through branch- level literacy camps.
5. Publish branch-level service and asset-quality indicators to sustain depositor trust.

Limitations. The study covers one branch over one month, relies on observation and staff conversation, and has no customer survey or access to the bank's financial statements. Bank-level claims such as 23 branches, ₹1,500 crore business and zero net NPA are self-reported. Future work could add a customer satisfaction survey and a multi-bank comparison.

9 Conclusion

The Nanded Merchants Co-operative Bank illustrates both the strength and the strain of the UCB model. Local knowledge, low documentation barriers and personal service bring credit and deposit facilities to customers who may be overlooked elsewhere. Manual workflows, guarantor-based lending and layered compliance limit speed and raise risk. With RBI's revised framework supporting growth and strong banks, closing the digitisation gap and tightening credit monitoring are the most direct ways for such banks to deepen inclusion while protecting asset quality.

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