



Study on Cooperative Bank Lending Practices in Ahmedabad

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Abstract

This study investigates the lending practices of cooperative banks in Ahmedabad, focusing on the satisfaction levels and preferences of their customers. A structured survey was conducted to gather data from cooperative bank customers regarding their experiences with loans. The survey covered various aspects, including the duration of membership, types of loans availed, satisfaction with the loan application process, factors influencing their choice of the cooperative bank, comfort with repayment options, awareness of associated charges, and overall customer service satisfaction. Preliminary findings indicate that the most common types of loans obtained were personal loans, with factors such as lower interest rates, quick loan approval, and personalized customer service influencing their choice of cooperative banks. Members generally expressed satisfaction with the loan application process, although some noted issues with customer service responsiveness. Most respondents were aware of associated charges but had varying perceptions of their reasonability. Overall satisfaction levels were positive, with a majority of customers willing to recommend cooperative bank lending services to others.

Keywords: Co-operative Banks; Lending Practices; Satisfaction Level

Introduction

Co-operative banks are small-sized units organized in the co-operative sector that operate both in urban and non-urban regions (Soyeliya, 2013). Cooperative banks are pivotal institutions in the financial sector, particularly in urban and rural areas, where they play a vital role in fostering financial inclusion and economic growth (Nayak, 2012). Cooperative financial institutions have become an increasingly important source of lending to small businesses (Nitani & Legendr, 2021; Gupta & Jain, 2012). Moreover, in recent times, the banking industry has faced disruptions that have eroded customer confidence. Rebuilding relational trust and ensuring customer loyalty is now crucial, demanding effective solutions in response to the challenges posed by various crises (Damberg, Schwaiger & Ringle, 2022). This study aims to provide a comprehensive analysis of the lending practices adopted by cooperative banks in this thriving city in Gujarat, India. Ahmedabad, known for its robust industrial and entrepreneurial landscape, relies significantly on cooperative banks to meet the diverse financial needs of its residents and businesses (Bobbio, 2015).

The cooperative banking sector has been instrumental in promoting financial stability, supporting agriculture, and facilitating small and medium-sized enterprises (McKillop et al., 2020). This study delves into the lending processes, policies, and customer experiences within these banks. It seeks to elucidate how cooperative banks in Ahmedabad approach various facets of lending, including loan application processes, interest rates, repayment options, fees, and customer service.

In the ever-changing financial ecosystem, understanding the dynamics of cooperative bank lending practices is crucial for policymakers, bank management, and consumers alike. This research endeavours to provide insights into the factors influencing individuals and enterprises to choose cooperative banks, their level of satisfaction with these institutions, and areas for potential improvement.

Review of Literature

The Indian banking system exhibits notable variations in its operations and administration, with significant contributions from commercial banks, government banks, and cooperative banks. These financial institutions have brought about considerable transformations in the processes of Indian banking, influencing both growth and operational aspects (MG & Bhat, 2022). This literature review synthesizes insights from two key studies examining cooperative banks in India. Sharma *et al.* (2020) delves into the lending practices of these banks, revealing a concerning rise in non-performing assets (NPAs) attributed to modest capital bases and inflexible lending policies. Pitre (2003) focuses on urban cooperative banks (UCBs), highlighting challenges and proposing reforms to align them with the broader financial system. Sharma *et al.* (2020) identifies a pervasive issue in India's cooperative banking sector, where over 70% of banks face a consistent increase in NPAs. The study attributes this to modest capital bases, liquidity constraints, and rigid lending practices. The authors advocate for regulatory enhancements, including expanded RBI oversight and transformative measures like allowing urban Cooperative Banks to transition into small financing firms. Pitre (2003) addresses challenges faced by UCBs, emphasizing the aftermath of incidents like the Madhavpura Bank crisis. The study outlines a reform agenda for UCBs, focusing on aligning them with the broader financial system, addressing underperformance, enhancing governance, and streamlining regulatory mechanisms. These measures aim to strengthen the resilience of UCBs and ensure effective functioning.

Research Gap

This study on cooperative bank lending practices in Ahmedabad is crucial to filling a critical knowledge gap. Cooperative banks play a significant role in providing financial services to diverse segments of the population, including small businesses and farmers. However, there is limited research on their lending practices, risk management, and impact on economic development in Ahmedabad. Understanding these practices is vital for policymakers, regulators, and financial institutions to ensure efficient and sustainable banking services. Additionally, as Ahmedabad is an economic center, insights from this study can have broader implications for cooperative banking practices in urban and rural areas across India, contributing to financial stability and inclusive growth.

Methodology

The study involved a sample size of 100 customers of Co-operative Banks in Ahmedabad City, Gujarat, employing purposive sampling. This approach allows for a deliberate selection of participants based on specific criteria, ensuring relevance to the research objectives. The decision to limit the sample size is intentional, aiming for focused and in-depth insights. The primary data collection relies on a structured questionnaire designed to elicit relevant information from Co-operative Bank customers. Rigorous testing has been conducted to ensure the reliability and validity of the questionnaire. The structured format facilitates consistency in responses and aids in extracting meaningful insights.

The statistical analysis involves the application of the Chi-Square test to discern relationships between variables and assess statement validity. SPSS Chicago 2020 software is employed to execute statistical analyses. For each test, corresponding P-values are obtained. The predetermined level of significance is set at 5%. Decisions regarding the acceptance or rejection of specific hypotheses are made based on these P-values.

The study is designed with four key objectives. Firstly, it aims to assess customers' awareness and understanding of loan charges and fees. Second, it aims to assess the cooperative bank's level of customer service in relation to loan repayment-related inquiries. Additionally, the study aims to gauge the likelihood of customers recommending the cooperative bank's lending services to others. Lastly, it focuses on identifying and analyzing the factors influencing customers' choices of cooperative banks for obtaining loans. Together, these objectives form a comprehensive framework for exploring different facets of customer interactions with cooperative banks.

The existing study on cooperative banks in the literature suggests that there may be a discernible relationship between the gender of customers and the level of guidance and support they receive from the bank concerning loan repayment queries (Gnanasekaran & Anbalgan, 2012). Hence, the study aims to investigate whether gender plays a significant role in shaping the customer's experience with the bank's assistance in navigating the intricacies of loan repayments. Moreover, it is found that the interest rate of loans is a determining factor in the likelihood of customers recommending the bank's lending services to others. Thus, the study seeks to explore whether there exists a statistically significant relationship between the perceived competitiveness of interest rates and customers' inclination to endorse the lending services provided by the bank to their peers. Hence, the following hypotheses were formulated:

H1: There is a significant association between gender and bank's provision of sufficient guidance and support for loan repayment queries by customers.

H2: There is a significant association between interest rate of loans and the likelihood of recommending lending services to others among customers.

Results and Discussion

The results of the study, as shown in Table 1 below, reveal a high level of satisfaction among individuals with the loan application process of co-operative banks, with 81% expressing contentment. Additionally, a substantial 80% of respondents reported comfort with the repayment options provided by co-operative banks, indicating that these institutions are successful in offering flexible and accommodating plans that align with borrowers' financial situations. Notably, an overwhelming 97% of participants expressed satisfaction with the guidance received from co-operative banks regarding various loan-related queries, underscoring the effectiveness of customer support services. Furthermore, an impressive 98% of respondents indicated their likelihood to recommend co-operative bank lending practices to others, reflecting a strong vote of confidence in these financial institutions. The study identifies the interest rate as a major motivating factor, with a significant number of participants citing it as the primary reason for choosing co-operative banks for loans. Overall, these results signify a positive perception of co-operative banks' lending practices, emphasizing the importance of transparent processes, supportive guidance, and competitive interest rates in ensuring customer satisfaction and loyalty.

Table 1: Perception of Co-Operative Bank Customers

Particulars	Result
Satisfaction level of people with the loan application process of co-operative bank.	81%
Comfortness with repayment options provided by co-operative banks	80%
Satisfaction level with getting sufficient guidance regarding different loan related queries	97%
People who will recommend co-operative bank lending practices to others	98%

Major factor which motivates people to take loan from co-operative banks	Interest Rate
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As shown in Table 2 below, the obtained significance level of 0.448, which is greater than the conventional threshold of 0.05, leads to the acceptance of the null hypothesis and the rejection of H1. This result provides evidence that there is no statistically significant association between an individual's gender and the bank's provision of sufficient guidance and support for loan repayment queries by customers. As a result, the study does not find strong evidence to support a meaningful relationship between gender and the level of customer assistance the bank offers in relation to loan repayment inquiries.

Table 2: Association between Gender and Bank Guidance and Support

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.604 ^a	2	0.448
Likelihood Ratio	2.352	2	0.309
Linear-by-Linear Association	0.259	1	0.610
N of Valid Cases	100		

a.0 cells (0.0%) have expected count less than 5.

As shown in Table 3 below, the obtained significance level, which is less than 0.001 (i.e., less than 0.05), leads to the rejection of the null hypothesis and acceptance of H2. This rejection provides strong evidence supporting the assertion that there is a significant association between the interest rate of loans and the likelihood of customers recommending lending services to others. The study suggests that the perceived competitiveness of interest rates plays a crucial role in influencing customers to recommend the bank's lending services to their peers. The statistical significance underscores the importance of interest rates as a determining factor in shaping customers' likelihood to endorse the lending practices of the bank.

Table 3: Association between Interest Rate of Loans and Recommendation of Lending Services

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	32.600 ^a	4	<0.001
Likelihood Ratio	25.852	4	<0.001
Linear-by-Linear Association	22.708	1	<0.001
N of Valid Cases	100		

a.0 cells (0.0%) have expected count less than 5.

The study's results suggest that a person's gender doesn't have a big effect on how much help they get from the bank when they have questions about loan repayment. This is different from what Roy and Patro (2022) found, which says that even though global levels of financial inclusion have gone up over time, World Bank Findex data consistently shows that there is a gender gap in financial inclusion. On the other hand, the interest rate of loans significantly influences customers' inclination to recommend the bank's lending services to others, which is in line with existing literature on cooperative banks (MG & Bhatt, 2022). These results collectively emphasize the importance of transparent communication and competitive interest rates in fostering positive customer experiences (Tiwari, 2022) and, consequently, promoting the likelihood of customers recommending the cooperative bank's lending services to their

networks. While gender may not be a determining factor in customer support experiences, the interest rate emerges as a crucial element impacting customers' advocacy for the bank's lending practices.

In practical terms, financial institutions, including cooperative banks, should adopt targeted strategies to bridge the gender gap as per the persistent global gender gaps reflected in existing literature (Hendriks, 2019). Initiatives could include tailored financial education programs, mentorship opportunities, and efforts to ensure equal access to banking services. Moreover, Cooperative banks should prioritize maintaining competitive interest rates while ensuring transparent communication with customers. Practical implementation involves periodic reviews of interest rate structures to remain competitive in the market. Moreover, transparent communication practices, such as clearly articulating interest rate policies and repayment options, should be emphasized to enhance customer trust and satisfaction. Customer satisfaction serves as a pertinent indicator of loyalty, as individuals who experience higher satisfaction levels are inclined to demonstrate increased loyalty and are more likely to recommend the bank to new customers (Baqué, Ferati & Singh, 2021).

Conclusion

In conclusion, the study indicates a predominant satisfaction among individuals with the loan application process at cooperative banks. From a lending perspective, customers express contentment, citing personalized service and competitive interest rates as contributing factors to positive experiences. The interest rate emerges as a pivotal consideration in influencing individuals to choose cooperative banks for obtaining loans. Furthermore, cooperative banks stand out by offering flexible repayment options, allowing borrowers to tailor plans according to their financial circumstances. The reasonable charges associated with loans add to the appeal of cooperative banks, fostering an environment of fairness and transparency. Notably, the study underscores the robust awareness among customers regarding lending practices at cooperative banks, highlighting the institutions' commitment to transparency, community engagement, and member education in their operations.

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Conflict of Interest

The authors of this research paper declare that there is no conflict of interest in connection with the work presented in this manuscript. The research has been conducted impartially, and the authors have no financial or personal relationships that could potentially bias the outcomes or conclusions of the study.

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