

### **3. The Operating Environment**

3.1. Urban cooperative banks form a heterogeneous group in terms of geographical spread, area of operation, size or even in terms of individual performance. As such, development of the urban cooperative banking institutions into safe and vibrant entities requires the small banks in the group to be insulated from systemic shocks by emphasizing their cooperative character. Further, the weak banks may have to be strengthened as a group, through a process of consolidation that may entail mergers/ amalgamations of viable entities and exit of the unviable ones, if there are no other options available. It is also felt that it is necessary to set up a supervisory system that is based on an in-depth analysis of the heterogeneous character of the urban cooperative banks and one that is in tandem with the policy of strengthening the sector.