BOOK REVIEW

"Management of Banking and Financial Services"

Authors: Justin Paul and Padmalatha Suresh

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It is well known that the financial sector plays a key role in the development of the real economy. Emerging markets are realising that without a vibrant financial sector, economic growth is hard to sustain. In the past 15 years, major reforms have been introduced in the Indian financial sector.

Significantly affected by the deregulated environment, Indian banks face new challenges that would have been difficult to imagine 20 years back. At the same time, exciting opportunities are opening up. Financial services is today one of the hottest careers going around for bright B School students in the country. Indeed, the bigwigs of the Indian IT services industry look at banking as the biggest threat from a talent attraction point of view.

This book is written by Prof. Justin Paul and Prof. Padmalatha Suresh, two eminent academicians and consultants with rich experience in banking. Possibly the first of its kind written for the Indian audience, the book will therefore serve an important purpose and plug a major gap in today's B School curriculum.

Starting with an overview of the banking sector and then a brief coverage of central banking and monetary policy, the book goes on to cover key emerging areas in banking today. These include risk management, use of technology, product innovation, capital adequacy and fund mobilisation. The book also looks at the insurance industry briefly and how M&As are reshaping the Indian banking sector. Integrative case studies have also been provided.

The book explains in detail both concepts and applications with reference to modern day banking and financial services. The key takeaways are listed in each chapter to help students assimilate and internalise the learning. A large number of box items, illustrations, and solved problems make the book easy for students to use.

Some of the areas where the coverage is less detailed or absent and which the authors may consider for strengthening in their next edition are:

(1) Operational risk, market risk, financial modeling, and value-at-risk: The current coverage is minimal or too brief.

(2) Spreadsheet analysis and stress testing: Not covered.

These topics assume importance as today investment banking activities make up an increasingly bigger chunk of the business of banks at the expense of traditional lending activities.

Certain parts of the book are a little too general or difficult to understand or sweeping in conclusion. A few examples are:

“With the deregulation of financial markets and globalisation, the process of monetary policy formulation has acquired a much greater market orientation than ever before, inducing a shift from direct to indirect instruments of monetary control. This has been accompanied by several institutional changes in the monetary-fiscal interface to ensure that central banks possess the autonomy to regulate the banking system and their services.” … (pg. 4)

“The processes of globalisation and liberalisation have necessitated a widening of the mandate of central banks. For their policies to be effective, monetary authorities have been required to modify the way in which they conduct monetary policy.” … (pg. 4)

“It is worth noting that inflation emerges as the joint consequence of open-market operations and the interest rate the central bank charges on advances.” … (pg. 4)

“Although the service sector contributes significantly to national output, the impact of globalisation on services is yet to capture the attention of researchers and policy makers in many countries.” … (pg. 4)

“From our earlier discussions, it would be evident that managing the credit portfolio of a bank involves a higher level of risk-reward decisions than managing a portfolio of market investments. This is due to the fact that there is limited upside risk and unlimited downside risk in bank lending (in contrast to market investments, which hold limited downside risk but unlimited upside risk).” … (pg. 312)

“Risk management is uniquely important for financial institutions because, in contrast to firms in other industries, their liabilities are a source of wealth creation for their shareholders. Today, banks have started focusing on 'asset-liability risk' to mitigate balance sheet weaknesses. The problem is not that the market value of assets might fall or that the value of liabilities might rise. It is that capital might be depleted by narrowing of the difference between assets and liabilities, since the value of assets and liabilities may not always move together in the same direction. Asset-liability risk therefore is a leveraged risk.” … (pg. 449)

The authors should, however, be complemented for bringing together a vast body of knowledge on modern day banking in one place. Contemporary developments in banking, including the relevant regulations have been covered in detail. Indeed, the real value of the book lies in giving a real flavour of what is happening in today's financial system. This is an area where most Indian textbooks on banking fail to do justice.