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BOOK REVIEW

Title: BANKING AND FINANCE: THEORY, LAW AND PRACTICE BY CLIFFORD GOMEZ.
PHI LEARNING PRIVATE LIMITED, NEW DELHI, 2011. ISBN: 978-81-203-4237-8. 344PP

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ABSTRACT

Over the last five decades banking has changed tremendously both in theory and practice. The technological advancements and the gradual but consistent paradigm shift from the traditional collateral driven lending policy to purpose oriented lending are some of the remarkable developments which call for new knowledge and practice. Moreover, the increasing demand for financial inclusion to cater for expanding economic activities in the rural areas and the mounting middle-class quest for efficient financial services in the urban areas continue to overwhelm the already overstretched financial sector. The writer discusses these challenges and emerging banking opportunities in the wake of technological advancement in the banking sector. The author uses clear and concise approach to allow readers grasp the banking concepts with little difficulties. One of the interesting features of the book is the inclusion of a dispute settlement structure between bankers and customers in the Indian banking system. Moreover, the inclusion of co-operative banking and microfinance themes seem to increase the value of the book. Even though the book is meant for B. Com syllabus for Indian university students, the materials are still relevant to undergraduate students in other developing countries, Tanzania inclusive. One of the major weaknesses of the book is a disproportionate inclination of banking and financial services topics with little discussions on other finance areas. Yet, the book is still resourceful for lecturers, students and professionals majoring in financial institutions at undergraduate and postgraduate levels. It is also useful to consultants in the financial service sector.

Key words: Banking, Finance, Financial sector,

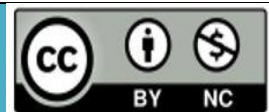
1. SYNOPSIS OF THE BOOK

The book is an attempt by the author to address some of the challenges and emerging opportunities emanating from the current technological progresses in the banking sector. The book is organized into two parts. Part one of the book (chapter 1-18) discusses the concept of banking and finance and expounds the use of modern technology in the banking sector. Part two (chapter 19-26) presents the legal relationship between a banker and customer.

The first four chapters dwell on the development of money and banking. The author contends that money and banking have contributed immensely to human development ... “while every branch of knowledge has its fundamental discovery, money is the essential invention on which all the inventions are based” (p.1). This imply that money invention has inspired human development witnessed today. The author presents the development of money in various phases from Robinson Crusoe’s single economy, to the barter system and to the money economy and comes up with a definition of money ... “anything that is generally acceptable as a means of exchange and that which acts as a measure and store of value. Based on the definition, the functions of money are categorized into primary, secondary and contingent functions. The chapters also discuss various types of banks, how they are organized and operated. The concept of financial supermarket is introduced to refer to a situation when non-bank companies serve a market basket of financial services while competing with official banks (p.33). Of interest is the

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comparability of branch and unit banking. The author seems to conclude in favour of branch banking ... “when we consider the arguments for and against branch banking, we find that the arguments in favour of branch banking weigh more than arguments against...” (p.29). However, given the current technological development in the banking sector and the increasing utilization of agency banking, and given the high costs of operating branches, the branching system is soon likely going to be replaced by unit banking.

Chapter 5 to 12 detail commercial banking and other financial services offered in the financial system. The settlement of claims due to inter-bank transactions and the role of central banking are discussed at length. The modern high-tech banking involving computerization and core banking systems are presented. The main argument here is to demonstrate the superiority of the technological advancement in revolutionizing banking services. Other financial services discoursed include mutual funds, insurance, merchant banking, factoring and housing finance. While the issue of housing finance has been problematic in Tanzania, the inclusion of housing finance presents an opportunity to grasp the concept. The discussion on the global financial crisis of 2007-2009, its causes, effects and the role of central banks in managing such financial crises is expounded. The author refers to financial crisis as... a sharp deterioration of group of financial indicators, such as short-term interest rates and asset prices, potentially also accompanied by failure of financial institutions (p.126). The main argument put forward is that central banks should take a pivotal role in managing economies of their respective countries to stabilize prices and mitigate such crises.

Chapter 13 to 18 focus on the Indian financial system, its structure and institutions, financial services offered, and bank legislation and licensing. The author recounts the technological developments and the changing scene of Indian banking system and how the sector has facilitated the rapid economic growth especially in the Indian rural areas. In order to ensure the economically active but low-income section of the economy is financed, “...banks have been advised to place greater emphasis on the purpose for which the loans are required ...” (p.197). The main argument is that the economy should be as inclusive as possible. Of interest is the cooperative banking role in financing the rural economy and how it has gradually replaced the high-cost money lenders. The structure and operationalization of the cooperative credit institution is discussed which indicates a separation of urban co-operative banks from rural co-operative one. The author introduces the concept of social banking which refers to financial services targeted to the economically low-income people and which is delivered close to where they live. The main argument is to ensure that the poor section of the society is not left behind in the wider economic growth of the country. Microfinance and microcredit programmes are considered as priority sector lending (p.209). One the interesting features of the India banking sector is the Banking Ombudsman scheme (p.214). The arrangement or scheme was introduced to solve disputes between banks and customers and redressing complaints from customers against deficiencies and gaps in the banking services. The offices of the scheme are located in various localities and are headed by individuals of high standing with background in legal, banking and public administration. “...Any person who has grievance against the bank can complain to the Banking Ombudsman of the locality” (p.214).

Part two of the book which deals with law and practice of banking and finance cover eight chapters (19 -26). The main issues raised in this part are how effective banking operation can improve relationship with customer. This part recounts on the relationship between the banker and customer. The banker’s role to a customer is spelt out and how a bank acts as an agent of the customer. The Know Your Customer (KYC) guideline is explained...“the main purpose of introducing KYC norm is to restrict money laundering and terrorist financing”. The various banking instruments such as cheques, bill of exchange, drafts and e-cheques and various features on the financial instruments are discussed. Moreover, issue on principles of sound lending, security for bank lending and various ways of securing loans and advances have also been described. The authors argue that a change in approach from security orientation to purpose orientation is a major development in the modern age. One of the positive developments is that banks are coming down to serve the low-income section of the community.

2.0 CRITICAL EVALUATION OF THE BOOK

The financial sector has continued to witness on-going quest for more informing banking knowledge arising from tremendous changes in the light of technological developments over the last five decades (Parameswar, Dhir, and Dhir, 2017). Moreover, the increasing demand for financial inclusion to cater for expanding economic activities in the rural areas (Alamlqbal and Sami, (2017) and the mounting middle-class quest for efficient financial services in the urban areas continue to overwhelm the already overstretched financial sector (Inganga et al., 2014) These developments in the financial sector seem to have prompted the author to come with a game-changing volume that responds to the challenges and emerging opportunities of the current times in the banking sectors. The author captures the attention of a reader in the way he/she discusses new technological advancements in the banking sector and how they have impacted the Indian economy. Of special interest is the inclusion in the manuscript the co-

operative banking, unit banking and microfinance services which appeal to readers with special interest in social financing. Housing finance is discussed to enable readers especially in developing countries appreciate the role of financial services in creating decent homes. Historically, housing co-operatives are in record as providers of cheap housing finance in India (Ganapati, 2008; Ganapati, 2007). Unfortunately, the author seems to have omitted housing co-operatives as part of the housing finance. The author ought to include housing cooperatives as part and parcel of housing finance. On the other hand, even though the main coverage is Indian banks, the materials are still relevant to readers in other developing countries, Tanzania inclusive. The Banking Ombudsman arrangement in the Indian banking sector presents a learning point for solving bank-customer disputes schemes in an amicable manner. The main take away message is that such arrangements in the banking sector bring fresh air not only to the general customers but also to the banks themselves due to the impartiality of the scheme. The scheme can also be emulated in modern banking in other countries (Yogesh, 2016). The author uses clear and precise language to enable readers grasp the banking concepts without much difficulties.

The disproportionate inclusion of banking and financial services with little discussions on other finance topics appears to be one of the major weaknesses of the manuscript. Given that the title of the book, the author should have included a fair share of finance topics such as risk management in the context of banking, emerging stock exchange in developing countries and how they are likely to complement the weaknesses inherent in the banking sector. Moreover, since there is a substantial coverage of co-operative banking, the author should also have discussed current trends in cooperative finance. The author has drawn banking experiences and examples from Europe and America to demonstrate various banking models and has related them to the Indian experiences. The inclusion of these experiences and examples has facilitated readers understanding of banking concept has evolved and developed to the current times. However, book could have been improved if the author drew a few experiences from African and other Asian banks. The author may also be susceptible to attack from gender sensitive readers for referring to “he” pronoun in most of the time. Nevertheless, the book is still resourceful for lecturers and students who are majoring in financial institutions at undergraduate and postgraduate levels. It is also useful to researchers and consultants in the financial service sector.

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