
A STUDY ON FINANCIAL INNOVATION AND INVESTMENT IN INDIA

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ABSTRACT

The literature on financial innovation from a wide variety of disciplines financial economics, history, law, and artificial association. Fiscal invention — like invention away in business — is an ongoing process whereby private parties trial to try to separatetheir products and services, responding to both unanticipated and regular changes in the frugality. Surely, invention ebbs and flows with some epochs flaunting bursts of exertionand others witnessing a slackening or indeed counterreaction. Still, when seen from a distance, the process of invention — in this case, fiscal invention — is a regular ongoingpart of a profit maximizing frugality. This paper will cover the recent trends in fiscal invention with reference to Indian script. Our attempt is to find out the Impact of GDP, Growth Rate(NIFTY) & Affectation on the fiscal invention revolution in India.

KEYWORDS: *Financial Innovation, Its Importance, Opportunities For The Future.*

INTRODUCTION

Fiscal invention is the act of creating and also depleting new fiscal instruments, as well as new fiscal technologies, institutions and requests. The inventions are occasionally divided into product or process variants, with product inventions instanced by new secondary contracts, new commercial securities or new forms of pooled investment products, and process advancements illustrated by new means of distributing securities, processing deals or pricing deals. In practice, indeed this inoffensive isolation isn't clear, as process and product inventions are frequently linked. Innovation includes the acts of invention and prolixity, although in point of fact these two are related as utmost fiscal inventions are evolutionary acclimations of previous products.

This paper defines fiscal invention as the act of creating and also depleting new fiscal instruments, technologies, institutions, requests, processes and business models including the new operation of being ideas in a different request environment.

This description, drawn from the source presented in Callout 5, is designedly wide. It includes inventions across the fiscal world, whether their source is a regulated institution, a member of the wider fiscal community or shadow banking sector, or an individual innovator. Still, no description can relatively capture the complexity of invention in fiscal services where a single new product might bring together innovative features in terms of function, marketing and client member, and the supporting structure.

The description matters because this report will latterly recommend ways in which fiscal service enterprises and their controllers will need to acclimatize traditional threat operation and other processes to minimize the implicit unintended consequences associated with invention. An important aspect of that adaption will be feting the counteraccusations of inventions that aren't always egregious. Another way to suppose about fiscal invention is in terms of its function. Economists say that the overall function of fiscal invention is to reduce fiscal request defects. Inventions might help to fill a gap in the products or services available to consumers (e.g. by furnishing a new type of secure Web payment medium) or to correct the imbalances of information available to constricting parties (e.g. through an innovative pricing or threat estimation technology). They might also reduce request conflicts, similar as the high costs of transacting some products (e.g., illiquid securities similar as equities in non-public companies), bring consumers together to offer them husbandry of scale or give a new way of communicating with implicit consumers or merchandisers through some kind of marketing invention.

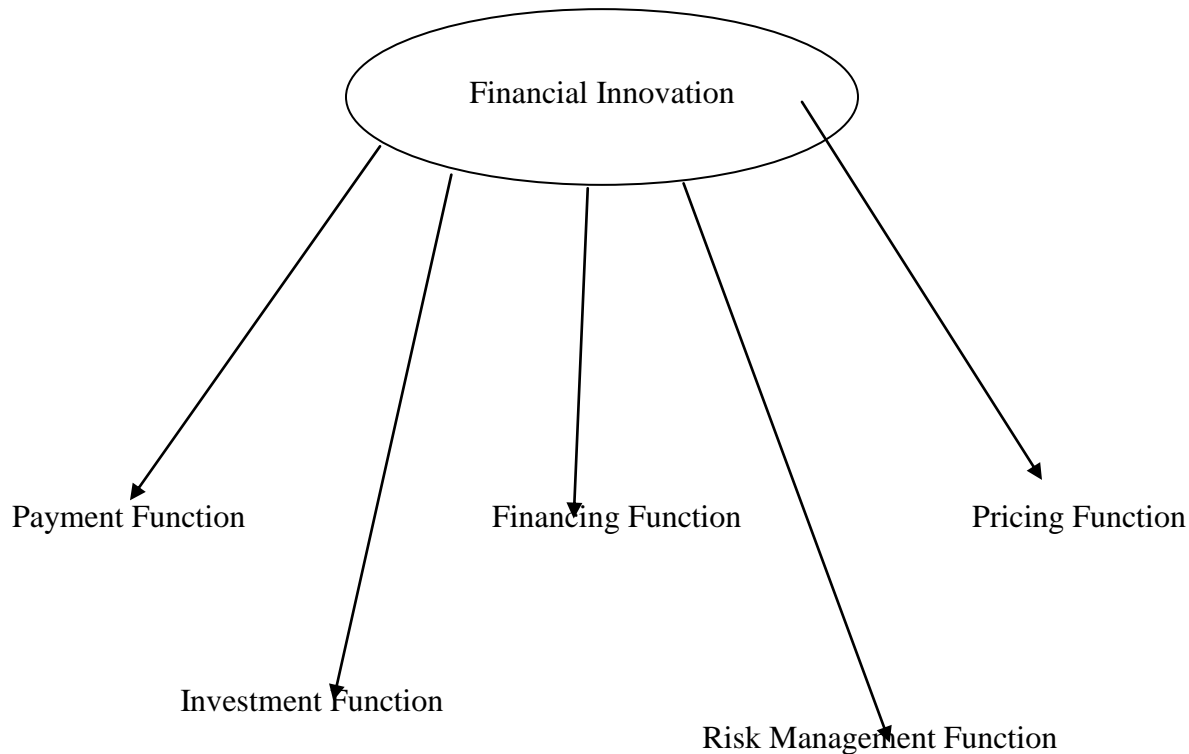
Above all, maybe, fiscal invention has introduced new ways for people to gain collective advantage from reciprocal requirements, e.g. the desire to adopt plutocrat, raise investment capital, or neutralize a threat, on the one hand, and the desire to advance, invest plutocrat or assume a threat in exchange for a figure on the other.

Traditionally, economists have allowed about invention as a way to make fiscal services more useful, transparent, accessible and effective.

Functions

The functions of the fiscal inventions can be described as follows

- 1) Payment function- adding the liquidity of the fiscal system.
- 2) Investment function- adding the variety of investment openings more acclimated to the threat-return profile of the investor.
- 3) Backing function- adding the vacuity to the sources of finances either equity or debt capital, both for longer and shorter ages.
- 4) Pricing function- perfecting the process of means valuation and threat pricing by the developed statistical styles.
- (5) Threat operation function adding the possibilities of transferring threat between system actors



Significance of Financial Innovation

Financial invention contributes to the vitality and growth of the global frugality and will continue to open up new openings for profitable growth and wealth-creation around the globe, despite the part it might have played in the fiscal extremity beginning in 2007.

It'll also help to break numerous pressing problems in both developed and less developed societies.

This belief is participated by numerous policy-makers, controllers and assiduity leaders, who also partake the commitment to chancing better ways to manage the pitfalls of invention in light of the extremity. The belief in the continuing power of invention also captures the reality on the ground. Some inventions intertwined in the extremity have been chased out of the fiscal requests but the wheel of invention has not stopped turning. Numerous fiscal requests across the world remained in good health through the extremity, indeed in the extremity-stricken advanced world, and invention continues at a occasionally astounding pace. While fiscal invention may be necessary, it shouldn't be looked on as a necessary wrong. On the negative, it can help address some of the world's most abecedarian challenges. This section of the report first sets out a broad typology of the crucial areas where invention can help to beneficially shape the world of hereafter, and also takes a more detailed look at the varying nature of the challenge in different kinds of husbandry the developed, developing and less advanced regions.

Objective of the study

The ideal of the study is to understand the conception of fiscal invention and its impact on the business.

Review of Literature

Merton Miller's (1986) view on fiscal invention, the period from the mid-1960s to mid-1980s was a unique bone in American fiscal history. Looking backward, he rhetorically asked, "Can any twenty time period in recorded history have witnessed indeed a tenth as much (fiscal invention)?" Looking forward, he asked the question, "Financial invention Is the great surge subsiding?" Answering "No" to the first question and "Yes" to the alternate, he concluded that the period was an extraordinary bone in the history of fiscal invention. Duffie and Giddy

(1981) have argued that utmost fiscal inventions are moreover aimed at circumventing government regulations or taken in response to perceived relative price or relative threat changes. Government programs- in particular, regulations that aren't applied slightly across all parties or countries, and duty rates that aren't invariant across different sources and uses of income- give a rich ground for the innovative process. Tufano (2003) and Duffie and Rahi (1995) The expansive literature on star – agent problems, adverse selection, and information asymmetry points to why investors might prefer some types of securities, similar as debt, over others like equity. Myers and Majluf (1984) develop an adverse selection model of equity allocation, in which enterprises (which are trying to maximize gains for being shareholders) issue equity only if they're hopeless. This was an early composition in the pecking order literature, which states that enterprises prefer to finance investments out of retained earnings first, also debt, and eventually equity, because investors are reticent to trust any establishment that needs to issue equity.

Duffie and Rahi also devote a considerable section to examining the mileage and effectiveness counteraccusations of fiscal invention. This is also the content of numerous of the papers in the special edition of the Journal of Economic Theory in which theirs is the lead composition. The utility of gauging the request appears to be limited (or, equally, the disutility of deficient requests isn't great).

Allen and Gale (1988) is one of the first papers to endogenize security allocation contingent on fiscal regulation — specifically, bans on short deals. In these circumstances, they find that the traditional split of cash overflows between debt and equity isn't optimal, and that state-contingent securities are preferred.

Ross (1989) develops a model in which new fiscal products must overcome marketing and distribution costs. Persons and Warther (1997) studied thunderclaps and busts associated with fiscal invention. The fixed costs of creating liquid requests for new fiscal instruments appears to be considerable.

Black and Scholes (1974) describe some of the difficulties they encountered when trying to vend the forerunners to ultramodern indicator finances. These included nonsupervisory problems, marketing costs, levies, and fixed costs of operation, help, and trading.

Shiller(2008) describes some of the frustrations involved with creating a request for house price futures.

Financial Innovation – Four Key

Openings for the Future.

The part of fiscal invention is to make fiscal requests more complete so that homes, enterprises and governments can gain finance, find the most suitable investments, and partake pitfalls in a mutually satisfying manner. Within this broad description, fiscal invention is likely to produce value through four crucial openings, whatever an frugality's stage of development

- Finance and grow the private frugality
- Promote inclusiveness
- Ameliorate effectiveness, access and the client experience
- Rebalance threat across sectors of the frugality.

Finance and Grow the Private Economy

Fiscal invention is held in low regard across important of the advanced world since the fiscal extremity beginning in 2007. Still, there are numerous areas where fiscal invention can and should be used to address critical profitable problems. Indeed, it's possible that the tougher profitable and nonsupervisory conditions since the fiscal extremity will act to increase the rate of fiscal invention, through the preface of a new business and nonsupervisory terrain. New challenges nearly always invite a new round of invention. In particular, legislative and nonsupervisory conduct to change the shape of the assiduity will both bear and stimulate invention. For illustration, new business models are likely to crop, new ways of managing threat will be developed and new products will be needed to match the increased harshness of prudential regulation. One particular area of concern is the force of credit. The advanced world is demanding a sounder banking system way of increased nonsupervisory capital and liquidity conditions. At the same time, governments are looking to the fiscal system to help give the credit to grow the frugality out of recession.

This is a riddle, and for the moment the force of credit remains low, particularly in Europe. Mario Draghi, President of the European Central Bank(ECB), said at the World Economic Forum Annual Meeting in Davos- Klosters in January 2012 that, while the ECB's new round of loans to banks had prevented a major credit crunch, "credit remains seriously bloodied in corridor of the euro area". It's likely that part of the result to this credit riddle lies in

- Sustainable innovative products to hedge exposures and diversify pitfalls, thereby freeing up capital
- New business models that give access to capital in innovative and sustainable ways beyond the traditional banking sector.

In some sections of a developing frugality, microfinance can be an important tool for encouraging tone- employment and the setting up of micro-businesses. Still, the real profitable prize lies in working out how to encourage the small-

to medium-sized business(SME) sector, which accounts for important of the employment in developed husbandry.

These businesses are too small to raise plutocrat from traditional marketable banks, let alone by issuing bonds on the debt requests, and are also frequently not well served by original institutions.

The answer may be to harness new ideas and technologies rather than trying to copy banking services in developed husbandry. For illustration, Garanti Bank, the second largest bank in Turkey with further than 9 million guests, lends to SMEs via a unique point-of-trade(POS) system. The loans are for fairly small quantities(TRY; roughlyUS\$ toUS\$) and short term(3 to 12 months) and bear neither a patron nor collateral. Rather, a sale-grounded credit scoring model allows for loan opinions to be made within five twinkles.

The advanced world also faces numerous deep challenges unconnected to the fiscal extremity that are likely to bear new approaches to finance and, veritably probably, new fiscal instruments. These challenges include

- Backing pensions and withdrawal plans in the face of demographic pressure(especially increased life with all its associated costs)
- Major structure conditions
- Adding healthcare costs
- New and renewable energy sources
- Cleaner diligence

By discrepancy to the advanced world, the capital requests of the developing world are fairly immature. Numerous experts suppose, for illustration, that it'll be vital for arising husbandry to develop bond requests in their original currency to stimulate investment, boost growth and ameliorate fiscal system stability. Strong original bond requests will heease their reliance on bank finance and reduce the threat of currency and backing mismatches.

The speed with which original bond requests are prognosticated to develop is striking. In 2007, developing frugality bond requests reckoned for 11 of the world's bond requests, but it's allowed this may rise to over 30 by 2030 and to nearly 40 by 2050. Bond requests aren't only developing in the fasttrack BRIC nations but also in further grueling political and profitable surroundings. For illustration, in the summer of 2011 PADICO Holding, the largest intimately possessed company in the Palestinian homes, issued five-time bonds at a value ofUS\$ 70 million. The oversubscribed offer was intimately placed with a group of 14 Palestinian and Jordanian banks.

Promote Inclusiveness

Contrary to popular belief, the problem of access to fiscal services affects numerous developed as well as developing husbandry. The situation in the United States provides a striking illustration. In a public check of the “ unbanked ” and “ under-banked ” conducted in the United States in 2009, the Federal Deposit Insurance Company(FDIC) plant that numerous people in homes with low-to-moderate income were unfit to pierce simple fiscal products similar as

bank accounts or loans on reasonable terms. In particular, around 9 million US homes (7.7 of the aggregate), didn't indeed have a checking or simple savings regard, while a farther 21 million (17.9) of the "under-banked" regularly used services indispensable to the mainstream fiscal assiduity (similar as payday loans or pawn shops).

The FDIC plant that a lack of banking services made numerous homes, "more vulnerable to loss or theft and frequently struggle to make credit histories and achieve financial security". The problem extends well beyond banking. The United States Census Bureau lately published a report on income, poverty and health insurance content, chancing that over 16 of people were without health insurance in 2010. Around 9.8 of those under the age of 18 – over 7 million children and teenagers – demanded health insurance. Numerous other countries in the advanced world also face a challenge in making sure that everyone has access to minimal situations of fiscal services, healthcare and insurance. Like developed husbandry, developing and least advanced nations face a challenge in making sure utmost people are suitable to pierce crucial fiscal services. Still, the challenge is larger in scale.

Some inventions have been making a significant difference to living norms in under-developed countries for decades, specially the microfinance and micro insurance movements. Micro-finance was innovated by the Nobel Prize Laureate Muhammad Yunus and since the 1970s has been used to offer some of the poorest people in the world access to fiscal services including loans and plutocrat transfer. Micro-insurance decreasingly offers the poorest homes a way to cover themselves against crucial pitfalls in return for the regular payment of decorations. The micro-finance assiduity now operates on a significant scale. For illustration, since it was established in 1976 by Professor Muhammad Yunus, Grameen Bank has advanced roughly US\$10.8 billion to some of the world's poorest individualities.⁶⁹ With nearly 8.4 million borrowers, the bank is the world's largest micro-lender. For the general population, given the growth in microfinance lending, the crucial problem is maybe not access to credit but to savings vehicles. While Women's World Banking exploration shows that the poor frequently save as important as 10 to 15 of their yearly income, there's frequently nowhere secure to keep it. Generally speaking, microfinance associations don't offer savings accounts and need the authorization of original controllers to do so. This is beginning to be and there may be significant openings to develop savings institutions indeed in poorer regions of the world. Another illustration that should be mentioned then's the use of mobile banking in countries similar as Kenya, where this invention handed access for millions of homesto fiscal services. Provides some intriguing statistics on this fiscal invention, which is a crucial contributor to profitable growth in Kenya and a model for other economically uninhabited nations. However, also the social and long term profitable earnings will be huge, If invention can help to make fiscal services more extensively available in the least advanced corridor of the world. Homes that are unfit to save or pierce the most introductory types of insurance are fluently undermined by a fiscal shock similar as a medical exigency.

Similar shocks in turn deplete ménage coffers that might else be used to ameliorate educational openings or start a small business.

Upgrade Efficiency, Experience and Access for Customer

Innovation

can increase the speed and effectiveness of fiscal services, ameliorate the client experience and expand guests' access to fiscal services. Then, two areas are stressed technology-driven inventions and client protection.

Technological invention is formerly perfecting numerous aspects of the client experience and new products, similar as the rearmost generation of mobile bias and the iPad and its challengers, are reshaping how guests buy goods and make use of payments services. Incremental inventions are likely to further work the eventuality of mobile and online banking, and point technology will be one of several new ways to establish a person's identity.

The alternate dimension of invention likely to prove important enterprises consumer protection.

A new emphasis on protection may arise incompletely out of post-crisis non-supervisory enterprises and incompletely out of the ever-adding complexity of the fiscal world. Individualities must reuse an adding quantum of information and are decreasingly suitable to enter into fiscal contracts at the click of a button.

New approaches to consumer protection will be needed if guests are to gain the services they really want, make informed opinions and pay fair freights and interest rates. One intriguing motorist of this area of invention is the rise in behavioral economics and its effect on how controllers and the assiduity suppose about consumer protection.

Rebalance Risk Across Sectors of the Economy

Risk operation is an area where invention is likely to be essential if the fiscal system is to profit society. Threat operation invention has a diminished character, incompletely because of the abuse of derivations and new securitizations in the run-up to the fiscal extremity and incompletely due to the more general failure to anticipate and shield off the serious losses incurred in the extremity.

Yet

it's delicate to imagine how society will manage with certain pitfalls without farther invention, in particular

- Life The US Central Intelligence Agency states that, in developed countries, the length of time one can anticipate to live has increased to 77-83 times. It's likely to continue adding, though no-bone can be relatively sure of the rate of enhancement. While an increase in life is to be ate, without changes in public policy it'll put massive costs and fiscal pitfalls on society that will need to be better addressed.

- Climate change It's extensively accepted that the climate is changing. This will bear adaption and put new pitfalls on numerous diligence, utmost obviously husbandry. In the same way that 19th century inventions eased husbandry and trade, financial invention will again be necessary to manage these pitfalls and to shift some portion of them to others in the fiscal system in return for a figure. To a degree this is formerly passing, and since

the 1990s, the insurance and banking diligence have developed rainfall derivations that allow those exposed to unanticipated rainfall events to neutralize the financial goods.

These pitfalls will bear new insurance requests and products, and innovative capital request results, if the fiscal services assiduity is to help society meet the challenge.

The ultramodern fiscal system is characterized by high pace of inventions that can do in any of its rudiments requests, institutions, instruments and regulations.

The financial inventions observed in the fiscal system can be classified according to colorful criteria, indicating their diversity. Despite the differences in the applied groups, the proposition of fiscal inventions is substantially concentrated on their goods upon the financial system. The sustainable fiscal inventions are needed, as they enhance the effectiveness of the fiscal system and by this they can ameliorate the profitable growth and increase the social wealth.

The effective operation of particular fiscal invention requires an expansive knowledge about its way of performing and a thorough analysis of its consequences.

Finding

- Finance and grow the private frugality with new business and promote inclusiveness
- Ameliorate effectiveness, access and the client experience
- Rebalance threat across sectors of the frugality
- Fiscal inventions and their part in the fiscal system is largely complex and can be an important and intriguing subject for farther exploration, both theoretical and empirical etc.

CONCLUSION

The exertion of fiscal invention is large, but the literature on the content is fairly small and spread out astronomically among a number of fields. Unlike some other areas represented in this volume, where our profession had made a great deal of progress, the subject of fiscal invention remains one in which our intellectual charts show vast uncharted — and potentially intriguing — lands to be explored.

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