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An Empirical Study on Factors Influencing Financial Innovation in Micro Finance Institutions in Kerala

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ABSTRACT: Microfinance needsto adapt financial innovations in order to satisfy the growth expectations. Financial innovation has a great impact on Micro Finance Industry. The objective ofthe present study is to examine the factors influencing financial innovation in Micro Finance Institutions in Kerala focusing on the factors such as high profit, increased return on assets, cumulative loans, decrease in non-performing loans, return on investment and equity.The data for the study was collected from 110 Microfinance Institutions using stratified sampling through structured questionnaire. Anova and Regression tools were used in the study for the analysis of data.The results of the regression indicatedthat profit and decrease in non-performing loans have a significant and positive impact on factors influencing financial innovation.

KEY WORDS: Financial innovations, Micro Finance Institutions.

1. INTRODUCTION

Microfinance industry has recorded tremendous growth over the last five years. India is one of the most promising market for microfinance in the world. Indian Microfinance Industry has expanded more than 60% in 2015- 2016 when compared

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to previous years. (Sa- Dhan). Innovation is the key to the success in any industry. Innovation coupled with social relevancy is given phenomenal importance in today's economic growth. Innovation refers to any good, service or idea that is professed by someone as new (Kotler, 2003) and brings about new methods and strategies to provide solution to the ever growing population. Financial and banking sectors have been greatly influenced by innovations. Financial institutions providing services like microfinance help financial innovations to reach the masses. Huge populationare untapped in the microfinance arena. Financial innovations in microfinance provide new schemes and techniques to capture the untapped population. Financial innovationrefers to the act of creating and then popularizing new financial instruments as well as new financial technologies, institutions and markets (Jofi, 2015). Financial innovation must either reduce costs and risks or provide an improved service that meets the particular needs of the financial system. Financial innovation can be explained in terms of instruments, institutions structure and processing systems to address the market inefficiencies and constraints that limits the earning capacity. (Mugo, 2009).

A low cost and long term sustainable financial innovation are required for bringing about a sustainable growth in microfinance industry. These innovations should provide benefits to the service provider and the beneficiary of those services. Hence to understand the long term impact of financial innovations on the microfinance it is important to study the factors influencing these financial innovations. Size of the financial institutions, new technologies, financial regulations, increase in client usability, financial risk, cost reductions are some of the factors which influence financial innovations. Hence the study focused on understanding influence of these factors on financial innovations.

1.2. LITERATURE REVIEW:

In depth study of existing researches on financial innovations and its role in microfinance industry and the following are presented:

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Mwaura, Nasieku, (2016), studied factors influencing the growth of financial innovation at Nairobi. The key objective of this study was to determine the factors influencing the rate of financial innovation 30 MFI's. The study concluded that price stability variables such as price volatility, money value and customer price index influence the financial innovation to a great extent.

Mobegi, et al., (2015), studied the analysis of factors inhibiting the growth of micro finance sector in Kenya among 200 MFIs. The objective of the study was to identify the main challenges and constraints impeding the growth of micro finance and to provide policy recommendations to boost MFIs growth sector in Kenya. The findings of the study revealed that lack of regulatory and policy framework, lack of capital and high operational costs were the main problems hampering the growth of MFIs in Kenya.

Kaloo (2015), investigated the effect of financial determinants on micro finance performance in Kenyan coast among 60 MFIs. The objective of the study was to investigate the effects of financial determinants on the performance micro finance community in Kenyan coast. The study recommended that the management of the MFIs should identify innovative modes of savings, seek further financing, apply efficient andadopt effective credit risk management and dividend policy in order to become more competitive.

Gupta, Aggarwal, (2014), analyzed the financial innovation and technology. The purpose of the study was to describe the recent financial innovative changes taking place in India and to analyze the impact of these innovations on Indian economy. Based on the findings National Electronic Fund Transfer, Mobile banking have a huge influence on the financial decision. The study recommended to take appropriate efforts to promote the innovation in the financial sector for continued growth and development which will lead to economic growth and raise in the standard of living.

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Kapoor and Sinha, (2013) examined the factors influencing new product development in micro finance institutions among 4 Micro finance institutions from two states of India viz. Uttar Pradesh and Uttarakhand. The objective of the study was to increase the customer base which in turn catalyzes the efforts of any organization for achieving sustainability and increase in profitability. The study attempts to substantiate the key role played by the internal aspect that influences the new product development process.

1.3. RESEARCH GAP:

Review of Literature revealed that the majority of the studies relating financial innovation in MFI's were done mostly in the African continent. Very few studies were done in India though the scope of microfinance is very high here. Existing studies shows a positive impact of financial innovations on microfinance and it is necessary to adapt these innovations in microfinance. So the present study proposes to bridge the gap and focus on the factors influencing financial innovation in MFI's.

1.4. OBJECTIVES OF THE STUDY:

1. To analyze the impact of demographic factors on the financial innovation in Micro FinanceInstitutions.
2. To analyze the impact of satisfaction of attributes on the factors influencing financial innovation

2.RESEARCH METHODOLOGY

2.1Population

The target population was NBFC's MFI and Cooperative banks in Kerala.

2.2Sample size and Sampling Technique:

Sample size taken in this study are 110 MFIs. The sampling method adopted in this study is stratified sampling.

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2.3 Data Collection Method:

The study used primary data. Data were collected using pre-tested questionnaire. Reliability were tested using SPSS software, all the variables had value of more than 0.87 as reliability.

2.4 Tools for Data Analysis:

- Anova
- Regression

3.ANALYSIS AND INTERPRETATION

Table 1: Levelin organization and factors influencing financial innovation

H0: There is no significant difference between the Level in the organization and factors influencing financial innovation.

H1: There is significant difference between the Level in the organization and factors influencing financial innovation.

Factors		Sum of Squares	df	Mean Square	F	Sig.
Attributes	Between Groups	2.378	2	1.189	6.411	.002
	Within Groups	19.847	107	.185		
	Total	22.225	109			

The f value is 6.411 and the significant value is 0.02 which is less than the acceptable value of 0.05 hence null hypotheses is rejected and it is inferred that level in organization influence the factors influencing financial innovation.

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Table 2: Years ofexistence of firm and factors influencing financial innovation

H0: There is no significant difference between the Years of existence and the factors influencing financial innovation.

H1: There is significant difference between the Years of existence and the factors influencing financial innovation.

Factors		Sum of Squares	df	Mean Square	F	Sig.
Attributes	Between Groups	.394	2	.197	.965	.384
	Within Groups	21.831	107	.204		
	Total	22.225	109			

The f value is 0.965 and the significant value is 0.384 which is greater than the acceptable value of 0.05 hence null hypotheses is accepted and it is inferred that years of existence does not influence the factors influencing financial innovation.

REGRESSION ANALYSIS

Table 3: Predicts the variation of satisfaction of attributes on the factors influencing financial innovation

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.423a	.179	.131	.42094

The r2 value (.17), there is 17% of variation in the factors influencing financial i
Can be predicted using high profit, increased Return on Assets, more cumulative loans, decrease in Non-performing loans, return on Investment and return on equity.

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Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	3.277	.319		10.285	.000
High profit	.130	.056	.259	2.305	.023
Increased Return on Assets	-.233	.135	-.323	-1.730	.087
More cumulative loans	-.026	.125	-.037	-.212	.833
Decrease in Non-performing loans	.402	.120	.544	3.359	.001
Return on Investment	-.082	.127	-.143	-.646	.519
Return on equity	.085	.119	.143	.719	.474

Table reveals that high profit have a significant and positive impact of 25.9% on factors influencing financial innovation (β= 25.9%, t = 2.305, $p < 0.05$) and the decrease in non-performing loans also have a significant and positive impact of 54.4% on factors influencing financial innovation (β = 54.4%, t = 3.359, $p<0.05$).

CONCLUSION

The study examined the factors such as high profit, increased return on assets, more cumulative loans, decrease in non-performing loans, return on investment and return on equity. Study found that high profit has a significant and positive relationship on factors influencing financial innovation. Study suggest that decrease in non-performing loans also have a significant and positive impact on factors influencing financial innovation.

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