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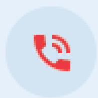
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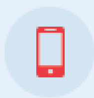
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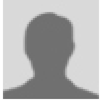

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Financial Innovation has had immense relevance and significance in the realm of Global economy. Naturally, In Indian economy also financial innovations caused great beneficial impacts. Innovation is a widely effective force within financial services. The impacts of these financial innovations on the structure and dynamic nature of financial markets, especially on the Indian Economy have been meticulously discussed in this study. Much effort has been taken to bringhome the recent financial innovation changes taking place in India. A lot of financial innovation changes taking place in India. A lot of financial innovations have created remarkable effects on the economy like Venture Capital, Micro finance along with many financial technologies like National Electronic Fund Transfer (NEFT), Online share Trading, E-Banking, Mobile Banking...etc. Thus all these innovations have become highly crucial and brought many developments in the financial environment of the country required to meet the needs of the present global turbulent financial environment. Inorder to fulfil the objectives of making India a super power in 2020, appropriate efforts have to be taken to promote the innovations in the financial sector for continued growth and improvements that can lead a country to the avenue of becoming a super power as these innovations and technologies push the economic growth and increase standard

of living. **INTRODUCTION**

An overall change of the financial system of India has come to be inevitable. The present scenario of Indian economy is impossible to be changed unless and until it is supported by an efficient by an efficient financial system. The financial system can be defined as a cluster of markets, institutions, instruments and regulations through which the financial securities are traded, interest rates are determined and financial services are produced and delivered around the world. At Present, it is clearly visible that the financial system is one of the most innovative creation of the modern society. The term Innovation can be defined as the advent of new ideas capable of bringing a change in any system. These ideas are in the form of new concepts, solutions to problems and instruments that can be implemented for changing and improving the conditions or situations of a business entity. A business organization or an entity normally fails to acquire a sustainable growth without innovation management followed by trust, reputation, knowledge and experience. Financial innovation is the process of introducing new financial instruments, technologies into the markets. The Financial innovations are classified as process variants or products. The Variants product include new derivations, new securities and new forms of pooled ventures or investments. Process variants include distribution of securities, transaction processing etc. There are three categories of Financial innovations. (a)Facilitate the transfer of value through time; (b) Allow the ability to contract on future values; and (c) Permit the negotiability of claims.

As the integrated part of Globaleconomic system, Financial System analyses and determines the cost and flow of funds among different economic entities such as households, small business enterprises, governments and other financial institutions.Many financial innovations created financial technologies like Automated Teller Machines, National electronic funds transfer, Risk management products, mobile banking, etc. The chief mission of this paper is to analyze the concept of financial innovations along with financial technologies. The current scenario of Indian financial system and recent innovations in financial sector have been thoroughly examined.The study has been given mush emphasis on the scope of financial innovations and technologies in India by 2020. Financial innovations act as a contrivance to finance technological projects when traditional sources of finance are unavailable because of high risks of investments. Moreover, the economy is progressing technologically causing complexity of business processes.New types of risk now exists that compel the financial system to adopt the changes. **REVIEW OF LITERATURE**

Schumpeter (1942) states that large firms prefer to go for innovation due to two main reasons. First, Research & development projects usually involve huge expenses that can only be recovered with exhaustive sales. They enjoy scale and scope economies in the process of innovation and have relatively better access to external monetary resources.

Scherer and Ross (1990) suggested that smaller firms may be more comfortable to become rapid innovators if Research & Development in larger firms is undermined by loss of managerial control and/or a bureaucratic approach to innovation

In a theoretical model developed by Aron and Lazear (1990), new (or start-up) firms are more likely to initiate new research programs and introduce new products that may result in higher profits over the longer term. Another factor that is differentiating new and existing firms is Cannibalization. Unlike new firms, incumbents must consider potential lost revenues from sales of an existing product if it is a near-substitute for the innovation. An existing firm might also suffer if the cost of producing the current product is adversely affected by the introduction of a new one, possibly causing scope diseconomies.

Boot and Thakor (1997) use a theoretical model to illustrate that the probability of innovation in the financial sector rises with specialization (boutique firms) and competition. Bhattacharyya and Nanda (2000) show that higher market share and more developed client relationships increase the incentive of investment banks to innovate.

FINANCIAL TECHNOLOGIES AND INNOVATIONS

A New Industrial Policy began to emerge bringing in many financial innovations and technologies during late 90s. They have proved their significance over time and are becoming an important aspect of the resent financial environment. Some of the innovations are explained below:

i. MICROFINANCE

“Microfinance can b realized as a range of financial services including credit, savings, insurance, money transfers, and other financial products provided by different servi

ce providers, aimed mainly at poor and low-income people.” It is the provision of financial services to low-income clients, including individuals and groups.They traditionally lack access to banking and related services owing to low earning and growth potential.Micro finance is an effectivemethod in reducing poverty, empowering women and leads to economic growth and development. Micro finance plays a key role in empowering women. In former days and even today in many countries, women have not been actively participating n the economic activities of households. Microfinance targets to provide women with the financial services to start business ventures and actively participate in the economic activities. Microfinance has been able to give them confidence and courage to improve their status and enhance their involvement in decision-making process also to reducing gender inequality.Micro Finance is now evolving as a powerful instrument for poverty alleviation especially for women. In India, microfinance industry is dominated by Self Help Groups (SHGs) that aimed at providing a cost effective mechanism for providing financial services to the individuals and groups as they lack financial services because of low incomes of their businesses. ii.
NEFT
National Electronic Funds Transfer (NEFT) is a nation-wide payment system facilitating one-to-one funds transfer. Under NEFT, individuals, firms and corporates can electronically transfer funds from any bank branch to any individual, firm or corporate having an account in any other bank branch in the country participating in the Scheme.Even individuals without a bank account can deposit cash at the NEFT-enabled branches with instructions to transfer funds using NEFT. But, such cash remittances are restricted to a maximum of Rs.50,000/- per transaction. Such walk-in-customers should furnish full details including complete address, telephone number, etc. NEFT, thus, also help in transfer of funds even without having a bank account. This is a simple, secure, safe, fastest and cost effective way to transfer funds especially for Retail remittances. Below are listed the advantages of NEFT over other modes of funds transfer: • Physical Cheques or Demand Draft are not needed while transferring money.
• As the transfer is electronic, there is no need to visit bank for depositing the paper instruments as in the case of Cheque and Demand Draft.
• The chances of fraud are very low as compared to traditional modes of money transfer
• It is very cost effective and time saving.
• Credit confirmation of the money transferred can also be received via SMS or email.
• The person transferring the money can easily transfer the funds from the comfort of their homes using internet banking.
• It enables real time transfer of funds possible in a secure manner. ATM
Automatic teller machine (ATM) is recently in vogue throughout the world. It is a computerized telecommunications device which can provide customers to get access to financial transactions without the need of visiting the bank with the help of ATM Machines and plastic cards. ATMs can be used to make cash withdrawals or to check account balances. ATMs can be found easily in cities, allowing customers easier access to their accounts. ATM operated by ourown bank is generally free of cost, but using ATM operated by a competing bank may involve a small fee. Advantages of Automated Teller Machines (ATMs) 1. It assumes 24 hours service,the customers can withdraw cash at any time of day and night.
2. ATM reduces the workload of bank's staff and service is more or less error free
3. It is very beneficial for travelers as it enables them to carry money in plastic form which is safer and more secure. They can withdraw money from ATMs in foreign countries.
4. ATM gives customers new currency notes and provides them with privacy in transactions as because the ATM card is protected by a PIN.
5. ATMs offer the convenience of multiple locations as they are scattered all over the country. Hence no need of long queues.
LIBOR LIBOR, the abbreviation of London Interbank Offer Rate, can be considered as the global reference rate for unsafe short-term borrowing in the interbank market. It functions as a foundation stone for short-term interest rates. Usually, it has been appliedfor pricing of interest rate swaps, currency rate swaps along with mortgages. It is an index mark of the wellbeing of the financial system and offers an understanding of the trajectory of expected policy rates of central banks.LIBOR activities are executed by the Intercontinental Exchange or ICE. It is reckoned for five currencies with seven different maturities ranging from overnight to a year. The above mentioned currencies handled LIBOR are Swiss franc, Euro, Pound Sterling, Japanese Yen and U

S Dollar. ICE prime transactions consist of 11 to 18 banks that contribute for each currency. MIBOR MIBOR is the abbreviation for Mumbai Interbank Offer Rate, the touchstone of the Indian call money market. It can be realized as the rate at which banks exchange unsecured funds from one another in the interbank market. Now, it is used as a reference rate for floating rate notes, corporate debentures, term deposits, interest rate swaps and forward rate agreements. The pricing of overnight indexed swaps, a sort of overnight interest rate swap relied on in hedging interest rate risk is based on overnight MIBOR.In response to the recommendation of the Committee for the Development of Debt Market, the National Stock Exchange (NSE) established the Mumbai Interbank Offer Rate (MIBOR) and Mumbai Interbank Bid Rate (MIBID) in June, 1998. Consequently, the NSE developed a benchmark rate for the term money market, like the 14-day, 1-month and 3-month MIBOR. The same was renamed as FIMMDA-NSE MIBID/MIBOR rate later. The rate has been calculated by polling a representative panel of 30 banks and primary dealers and referring to the quotes that they offered. The next step is concerned with identifying and isolating the noise by eliminating extreme values of the reference rates. **KEY DRIVERS FOR FINANCIAL INNOVATIONS TO BE SUCCESFUL IN LONG RUN** It is a true fact that financial innovations once implemented are not sure of being successful in long run. There should be some key drivers to make it useful and successful in the long run. Five factors can be taken into considerations to make a financial innovation successful in long run:

• Well trained human capital.
• Smooth flow of investments into the market to facilitate future innovation efforts.
• Development of technological leadership.
• Ability to adapt to changes in innovation projects in financial markets.
• Facing dynamism in public support systems for innovations. At first, there should be high skilled man power or human capital with expertise knowledge of the particular financial innovation to deal with day to day technical problems. Secondly, the investments that can be done now but are not made can have negative effects in the future as the pool of opportunities will be reduced due to limited investments. So, tacit knowledge must be possessed by the investors in order to avoid losses and negative effects and proper Research & Development should be done for future prospects. The third requirement is the technological leadership as key businesses that are located abroad may respond to low demand of local markets and also difficulties in financing may occur. Partial relocations of companies should be avoided to hinder the unequal distribution of demand and industrial growth. Fourth, many companies are affected by the financial crisis in the recent past and they may continue to pay their debts in the near future also. With a view to avoid this they should have self supporting financial system and risk management plans to overcome such crisis. The fifth factor is that the companies have to be flexible enough to face any kind of dynamism shown by public support systems that are likely to stop or slow down their growth through imposing various regulations. **CONCLUSION**

Nowadays, the financial system has become very dynamic and has high pace of innovations happening in its components like financial markets, financial institutions, financial instruments and financial regulations. The financial innovations like NEFT, Mobile banking aim to enhance the efficiency of the financial system. By enhancing the efficiency of financial system improvement in the economy and social wealth can be seen. There are many benefits of the financial innovation as they can save time and money of the users of these services. Therefore, the efficient usage of the financial innovation can modernize the present financial system making the transactions faster and easier than ever before.