BANKING – FINANCIAL REFORMS THROUGH INNOVATION

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Abstract

Financial liberalization is associated with an increase in the probability of banking (instability) crisis at given regulatory and institutional structures, time since last regulatory reform and macroeconomic conditions. The objective of the study is to analyze the impact of banking innovation & economic development. Primary data was collected for the study through a structured questionnaire. Multi-stage sampling technique was adopted to collect the responses with a sample size of 385. SPSS was used to test the hypothesis through One-Way ANNOVA. The study revealed that there is a significant difference between innovation in banking activities and economic development of financial reforms.

Keywords: Innovation, Financial Reforms, Banking & Economic development

INTRODUCTION

Financial liberalization is associated with an increase in the probability of banking (instability) crisis at given regulatory and institutional structures, time since last regulatory reform and macroeconomic conditions. Banking reforms is the reform of the Indian banking sector under the objectives of solving the chronic nonprofit earning problems and strengthening of the overall health of the public sector banks to face international competitions. The main thrust of the financial sector reforms has been the creation of efficient and stable financial institutions and development of the markets, especially the money and government securities market. In addition, fiscal correction was undertaken and reforms in the banking and external sector were also initiated.

LITERATURE REVIEW

In the previous study reveals that attributed to the newness of financial sector reforms in Morocco along with the absence of an appropriate investment climate required to foster significant private investment and stimulate development in the long run. (Alaoui Moustain, F.Z. 2004). The Financial Sector shifts. However, it was thought that reforms would only be effective if there is a need for legal changes to the level of NPAs. It is the banking authorities' attitude and productivity which must go a long way in making the banking reforms operationally and functionally efficient (Nettime and Kuruba, 2000). The examined the need for regulatory reforms in Banking System, and focused on current phase of reforms-prudential regulations and covered economic deregulations, moral hazards in the financial market, liberal credit regime and credit-rationing regime (Errol D'Souza, 2000). The study had shown that interest rate, interest income, other revenue, deposit per branch, total credit assets, proportion of priority sector advances, and interest income loss were the major determinants of Indian public sector banks' profit and profitability (Ganesan, 2001).

RESEARCH METHODOLOGY

Financial sector reforms refer to the reforms in the banking system and capital market. An efficient banking system and a well-functioning capital market are essential to mobilize savings of the households and channel them to productive uses. The objective of the study is to analyze the impact of banking innovation & economic development. Hypothesis framed is that there is no significant difference between innovation in banking activities and economic development through reforms. Primary data was collected for the study through a structured questionnaire.

Multi-stage sampling technique was adopted to collect the responses with a sample size of 385. SPSS was used to test the hypothesis through One-Way ANNOVA.

Table 1.1: ANNOVA on Innovation in Banking Activities

Economic Development Through Reforms	**Innovation in Banking Activities**	**Mean Square**	**F**	**Sig.**
Development of the financial infrastructure in terms of technology & legal framework.	Between Groups	.334	1.696	(.001)**
	Within Groups	.197		
Creation of an efficient, profitable and healthy financial sector.	Between Groups	.382	2.400	(.000)**
	Within Groups	.159		
Enabling the process of price discovery by market determination of interest rates.	Between Groups	.802	1.651	(.002)**
	Within Groups	.486		
Providing institutions with greater operational and functional autonomy.	Between Groups	.475	2.356	(.000)**
	Within Groups	.202		
Prepping up the financial system for international exposure and competition.	Between Groups	2.246	1.781	(.000)**
	Within Groups	1.261		
Introduction of private equity in public sector banks and their listing.	Between Groups	.621	1.539	(.006)**
	Within Groups	.404		
Introducing initiatives to nurture integrate and develop money, forex and debt market.	Between Groups	.463	2.240	(.000)**
	Within Groups	.207		
Promoting financial stability in the back-drop of domestic and external shocks.	Between Groups	.549	2.741	(.000)**
	Within Groups	.200		
To overcome the economic crisis that plagued the Indian economy.	Between Groups	.410	1.562	(.005)**
	Within Groups	.262		
Focused on correcting the present financial weaknesses.	Between Groups	1.137	.1.456	(.024)*.
	Within Groups	.907		
Source: Computed from the primary data. ** Sig @0.001 and * Sig @0.05 per cent level				

The above table 1.1 depicts the banking innovations and economic development through reforms. The variables like the development of the financial infrastructure in terms of technology & legal framework, creation of an efficient, profitable and healthy financial sector, enabling the process of price discovery by market determination of interest rates, providing institutions with greater operational and functional autonomy, prepping up the financial system for international exposure and competition, the introduction of private equity in public sector banks and their listing, introducing initiatives to nurture, integrate and develop money, forex and debt market, promoting financial stability in the back-drop of domestic and external shocks, to overcome the economic crisis that plagued the Indian economy and focused on correcting the present financial weaknesses are significant at 0.001, 0.05 per cent level. Hence (H_1) alternative hypothesis is accepted.

FINDINGS & CONCLUSION

Therefore, it is concluded that there is a significant difference between innovation in banking activities and economic development of financial reforms. Therefore the respondents make use of innovation in banking activities and economic development through reforms. Banks are the backbone of any economy and they not only act as the custodian of wealth but also as resources of the country that are necessary for the overall economic development of India.

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