**Abstract**

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 nonperforming 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 indicated that profit and decrease in non-performing loans have a significant and positive impact on factors influencing financial innovation.