COMMONWEALTH JOURNAL OF COMMERCE & MANAGEMENT RESEARCH

Vol.4, Issue 10 (October 2017) ISSN: 2393-851X Impact Factor: 0.612 UGC & ISI Indexed

AN EMPIRICAL STUDY ON THE INNOVATIVE SCHEMES AND TECHNIQUES INFLUENCING FINANCIAL INNOVATION IN MICRO FINANCE INSTITUTIONS IN KERALA

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ABSTRACT

Microfinance institutions have a huge task in reaching the poor. Understanding their requirements and tailor made schemes is an important requirement for the success of Microfinance institutions. Many innovative schemes and techniques developed by Microfinance Institutions provide solutions to their requirements. This study investigated the innovative schemes and techniques that influence financial innovation on Microfinance institutions. This study was conducted in Kerala among 110 Microfinance Institutions. Primary data was collected using structured questionnaire. Sample of 110 were drawn from the study population using stratified sampling technique. Tools used in the study are percentage analysis and descriptive analysis. Study found that respondents prefer bank funding among the innovative schemes and ATM among the innovative techniques

Key Words: Innovative schemes, Innovative techniques

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INTRODUCTION

Success of any business depends on how it satisfies its target and earns profits. In the banking services industry Microfinance is one such opportunity. Today Microfinance institutions are the most successful industry in the entire financial sector and are striving hard to grow to the maximum. Microfinance Industry presents huge opportunities for growth and a high reward business. The sector witnessed a "healthy growth" in client base with over 28 lakhs new members taking the total number of client to over 3.99 crores. Reserve Bank of India claims that about 94% of the total loans taken from MFI are income generating activities dominated by agriculture and animal husbandry. Microfinance sector focus on understanding the needs of poor and on devising better ways of delivering services in line with requirements. Government supported financial systems has helped to accelerate the growth rate of the microfinance sector. Microfinance plays a significant role in bridging the gap between the formal financial institutions and the rural poor.

Microfinance Institution is an institution that offers financial services to low income population. MFIs provide loans, insurance, deposit and other services to their members. Microfinance providers are segregated into three groups:

- Formal Sector – It covers the entire banking industry including all public, private, regional rural banks, NABARD and RBI.
- Semi- formal Sector – It covers all exclusive Micro financing institutions, NGOs and various Self Help Groups.
- Informal Sector – It covers family, friends, relatives, moneylenders, traders and landlords etc.

Financial innovation can be termed as a positive change in financial intermediation or financial system (Juhakam 2003). Financial innovation is something new that reduces costs, reduces risks or provides an improved product, services and instrument that satisfies participants demand within a financial system.(Frame and White 2012). Technological innovation, improved products, client outreach and increased stakeholder responsibility are crucial for microfinance

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sector. MFIs tailor make various schemes for the poor population in order to capture a bigger market and satisfy the masses. The various schemes are as follows:

- Saving schemes
- Credit schemes
- Deposit schemes
- Insurance schemes

These satisfy majority of the needs of the masses. Also these schemes reach the masses through various innovative techniques. Various innovative services are used to make these schemes available for the poor. The various techniques are as follows:

- Automatic teller machine
- Interactive voice through telephone response
- Smart cards
- Point of sale technologies

It is very important to understand the influence of these innovative schemes and innovative techniques on the growth of MFIs.

LITERATURE REVIEW

Dary and Issahaku (2013), examined technological innovation in microfinance institutions in Ghana. The purpose of the study is to adopt technological innovation among 41 MFIs. Findings revealed that computer based technology is the most widely adopted technology followed by telephone, counting machine, internet, fax machine and ATM.

Kevin et al (2013), examined the impact and challenges ICT adoption in the Tanzanian banks among 48 respondents. Study found that there is a need for bankers to educate public in the use of online banking products, invest more into ICT infrastructure and the government to reduce tax of ICT gadgets.

Bansal (2011), investigated the need of technical innovation to improve the quality of microfinance services. Study found that electronic devices are used to expand the outreach and to improve the microfinance functioning and there is enough scope to use such innovative techniques(mobile phones, ATM, processor cards, computers etc.) in microfinance sector in India.

Laureti and Hamp (2011), examined innovative flexible products in Microfinance. Innovative microfinance product includes micro savings, micro credit and micro insurance. The study found that microfinance institutions are introducing various types of flexibility which can be combined with a variety of disciplining mechanism, such as direct screening and monitoring of clients, financial collateral, reputational incentives, and also psychological pressure; product flexibility may raise the operational costs for the institutions and have a limited outreach.

Sundaram (2007), examined the work on Microfinance in India and found that microfinance is one of the innovative schemes to help the poor. The study suggested that self- help groups empower the rural poor by providing them access to institutional credit and other relevant services. The study recommends that SHG lay stress on thrift, training and capacity building.

OBJECTIVES

1. To examine the study on innovative schemes and techniques that influences financial innovations in Microfinance Institutions in Kerala.
2. To access the growth of Microfinance Institutions in Kerala.

RESEARCH METHODOLOGY

Population

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

Sample size and Sampling Technique

Sample size taken in this study is110 MFIs. The sampling method adopted in this study is stratified sampling.

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.

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Tools for Data Analysis

- Percentage Analysis
- Descriptive Statistics

ANALYSIS AND INTERPRETATION

PERCENTAGE ANALYSIS

Table1 shows the years of existence of firm

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	6-10yrs	52	47.3	47.3	47.3
	10-15yrs	35	31.8	31.8	79.1
	over20yrs	23	20.9	20.9	100.0
	Total	110	100.0	100.0	

From the table it is inferred that 47.3% of the respondents were in operation for a period of 6 – 10 years, 31.8% respondents were in operation for 10-15 years and 20.9% for over 20 years.

Table2 shows the number of clients

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-500	47	42.7	42.7	42.7
	501-1000	39	35.5	35.5	78.2
	1001-1500	20	18.2	18.2	96.4
	over1501	4	3.6	3.6	100.0
	Total	110	100.0	100.0	

From the above table 42.7% respondents have less than 500 clients, 35.5% between 501 -1000, 18.2% between 1001- 1500 and 3.6% over 1500 clients.

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Table 3 shows the gender classification

Classification	Percent	Cumulative percent
Women	80.9	80.9
Men	19.1	100.0

From the above table among 110 respondents 80.9% are women and 19.1% are men. It is inferred that microfinance provides to women.

DESCRIPTIVE STATISTICS

Table 4 shows Innovative Schemes

	N	Minimum	Maximum	Mean	Std. Deviation
Government grants	110	1	4	2.43	1.281
Savings and deposits	110	1	4	1.88	.687
Bank funding	110	2	4	3.55	.599
Others	110	1	4	2.14	.962
Valid N (list wise)	110				

Table shows the various innovative schemes in financial innovation. Bank funding (3.55) is high among innovative schemes and low in savings and deposits (1.88) among innovative schemes. It is inferred that bank funding is considered as an important innovative scheme.

Table 5 shows Innovative Techniques

	N	Minimum	Maximum	Mean	Std. Deviation
ATM	110	1	5	4.21	1.032
IVR	110	1	5	1.71	1.144
Smartcard	110	1	5	3.70	1.138
Personal digital assistant	110	1	5	2.38	1.075
Point of sale	110	1	5	3.23	1.081
Valid N (list wise)	110				

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The above table shows the respondents' level of innovative techniques is high among ATM (4.21) and low among IVR (1.71).It is inferred that most respondents prefer ATM as new innovative technique.

CONCLUSION

Eradication of poverty is on the agenda of all countries. Microfinance is a solution to this problem of poverty. For microfinance to be successful it is necessary to have an innovative and sustainable solution. This innovative and sustainable solution should create a competitive advantage for the MFIs in order to be successful. This study clearly shows financial innovation i.e. innovative schemes and techniques are clearly creating this competitive advantage and this resulting in the growth of MFIs. These innovative schemes and techniques are helping the MFIs to get a wider reach and satisfy a bigger circle of customers

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