A STUDY ON FINANCIAL INNOVATIONS AND FACTORS INFLUENCING THE ACCEPTANCE OF FINANCIAL INNOVATIONS BY BANK CUSTOMERS

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ABSTRACT
The Indian Banking Industry has undergone radical changes due to liberalization and globalization measures undertaken since 1991. Today, Indian Banking Industry is one of the largest industries in the world. A lot of financial innovations: new technologies, new products, new services and a plethora of new industries have emerged in the Indian financial market. Yet the call for innovation in business, especially in financial services, has never been more intense. There has been a great surge in efficient customer services. A highly satisfied and delighted customer is a very vital non-financial asset for the banks in the emerging era. Although research on this topic exists, there is no empirical evidence regarding the factors that influence the acceptance of financial innovations by the bank customers. The aim of this research paper is therefore to investigate the factors influencing the acceptance of financial innovation in Indian banking industry. The Surveys was conducted in Golaghat town taking 10 commercial bank branches operating in the town area among the 19 bank branches and the customers of the commercial banks.

Keywords: Financial innovation, customer focused performance

INTRODUCTION
Information technology and the communications networking systems have revolutionaries the working of banks and financial entities all over the world. Financial innovation is helpful in ensuring smooth functioning and improves the overall efficiency of the system by minimizing cost and reducing risk. Financial innovation has been an integral component of economic activity for several millennia (Goetzmann,2009). Financial Innovation can be defined as positive changes in financial intermediation or financial system: in financial institutions (commercial banks, insurance companies, investment and pension funds and investment banks) and in financial markets (stock market, debt instrument market and derivative market). According to Nofie (2011), innovations in the finance sector is the arrival of a new or better product and/or a process that lowers the cost of producing existing financial services. Akamavi (2005) also notes that innovation in the financial services sector has led to recent fundamental changes including; deregulation, increasing competition, higher cost of developing new
products and the rapid pace of technological innovation, more demanding customers and consolidation of corporations.

Accessing business performance is an increasingly important but unfortunately difficult task for managers and other corporate stakeholders. Business performance refers to the effectiveness of organizations in fulfilling its purpose. While some firms trade to return financial benefits to their stakeholders, others have non-financial benefits as their returns. Firm performance is a multidimensional construct that consists of four elements (Alam et al. 2011). Customer-focused performance, including customer satisfaction, and product or service performance; financial and market performance, including revenue, profits, market position, cash-to-cash cycle time, and earnings per share; human resource performance, including employee satisfaction; and organizational effectiveness, including time to market, level of innovation, and production and supply chain flexibility.

Customer focused performance is the key to the profitability of retail banking, which is having a long term financial impact on the business of the banks (Soteriou et al 1999). Performance of the banks depends upon the efficiency and level of satisfaction of its human resources. High level of human capital efficiency and employee satisfaction leads to the high performance of the banks (Stiles et al). It has also been found by the researchers that the banks which adhere to be socially responsible in their routine activities, outperform in their financial performance.

STATEMENT OF THE PROBLEM

The banking sector has, for the past decade witnessed various improvements and new innovation orientations with the main purpose of improving the service delivery of the banking sector. A fundamental assumption of much recent research has been that financial innovation has a direct bearing on performance improvements. Some of the forces of change that have greatly influenced the performance of commercial banks include mainly innovations adoption. The role of innovation orientations on efficiency and cost reductions in the banking sector is paramount to the successful and profitable service delivery in the sector.

Financial innovation has been indicated to affect economic growth and financial inclusion as well as boost the performance of commercial banks. Studies on financial innovation have been based other financial markets with little emphasis on the banking sector. To the best of the researcher’s knowledge, there is no local study that has investigated the factors that influence the acceptance of financial innovations by bank customers. Hence, there is a need for study focusing on the financial innovation of commercial banks and the factors which play an important role in acceptance of financial innovations by the bank customers, because if the banks can perform better to serve the customers as per their needs then the same can ensure profitability and sustainability.

REVIEW OF LITERATURE

A brief review of the existing research in this field has been presented. The findings of research are as follows: For banking, selling the core product was most important motivation for using interactive technologies. Service sector businesses emphasize the use of interactive technologies to build and maintain relations with the customers in long run. Gaur and Waheed (2003) studied the factors influencing the usage of interactive technologies in services business to determine the implications for developing these technologies to suit the users Prabhakaran and Satya (2003) identified the attributes related to banking sector and studied the weightage given to each of the attributes in assessing the service quality. They found that service quality is the major parameter in a highly competitive environment where product differentiation is not much. Gupta and Dev (2012) studied the factors impacting customer satisfaction in Indian banks and their effects on customer satisfaction. A questionnaire was given to 400 customers of 13 retail banks in India. Five factors were suggested driving customer satisfaction in banks namely: service quality, ambience, client participation, accessibility and financials. Bhat (2005) conducted a study on performance of public and private banks.
with reference to service quality perception. Public and private sector banks were compared in various dimensions of service quality in North India. In terms of up-to-date equipments and physical facilities, private banks were ahead of public sector banks; in reliability, public sector banks were leading. Sharma and Vyas and Raitani (2014) studied the drivers that lead a customer switch from one service provider to another in banking industry. The impacts of the influencing factors have been studied and tested empirically using exploratory factor analysis. Questionnaire was collected from banking customers and it was found that price, reputation, responses to service failure, customer satisfaction, service quality, service products, competition, customer commitment and involuntary switching have their significant effect on customers’ switching behavior. Govindaluri (2014) studied the factors influencing adoption of Internet banking in urban India. The factors of perceived usefulness, perceived ease of use, social influence, awareness, quality of internet connection and computer self-efficacy are primary determinants of the attitude toward the use of internet banking in urban India. The attitude toward the use of internet banking can be used to predict the intention to use of internet banking systems by users. Bapat and Mazumdar (2015) explored the business strategy and its strategic orientation in context of Indian banking sector. Based on responses received from 330 banking officials working in various functional areas of banks in India, four major factors- competition, cost, innovation and customer need were found dominant.

OBJECTIVES OF THE STUDY

Considering the observations and findings of previous researchers, the present study is an attempt to examine the factors influencing the acceptance of financial innovations by the bank customers

RESEARCH METHODOLOGY

The study was based on both primary and secondary data and carried out in Golaghat town of Assam. There are 19 commercial banks branches comprising of 14 public sector banks branch, 4 private sector banks branches and 1 cooperative bank branch in the town. For the purpose of the study 10 commercial banks branches of Golaghat town were taken out of which 7 was public sector bank , 2 was private sector banks and 1 was regional rural bank. Also 15 customers from each bank have been conveniently selected. The sample taken is the representative of the total population in terms of age, income and education level. The primary data were gathered through field investigation and personal interaction with banks customers to elicit required information. The study was conducted during the period of 2016-2017. The data so collected was analysed and organized in tabular form wherever necessary and interpreted with the help of percentage to draw meaningful conclusions. The primary data has been supplemented by secondary data which were collected from bank records, research papers, journals, government bulletin, internet etc.

ANALYSIS AND FINDINGS

Customers accept Financial Innovations if they find such innovation serves their banking service needs. Therefore attempts were made to explore the opinion of the customers on the performance of Financial Innovations in terms of- Perceived usefulness, Ease of use, Compatibility, Observability and Triability.

For the purpose of carrying out the research 150 bank customers from 10 different bank branches were interviewed. Out of the 150 respondents interviewed, majority of respondents i.e. 41(27.33%) respondents belong to the age group of 40 and above. 95(63.33%) respondents were male. 49(32.67%) respondents were govt. employee. 79(52.67%) respondents were graduates. And 48 respondents out of 150 respondents earn an annual income of 3 lacs to 5 lacs.

**Perceived usefulness:** Perceived usefulness is the extent to which an individual believes that undertaking a particular task will result in a positive gain. To measure the perceive usefulness of Financial Innovation introduced by banks, the sample respondents were asked questions like “I find financial innovations very useful in solving my banking needs.”, “Using Financial Innovations would
increase the quantity or output of my banking transaction.” And “I frequently use financial innovations in a month.”

Fig 1: Opinion on usefulness of Financial Innovation in solving the banking needs

![Graph showing responses to usefulness of financial innovations.]

Source: Primary data compiled from field survey

Fig 1 shows the responses of the bank customers regarding usefulness of financial innovations in solving their banking needs. Out of the 150 customers that were interviewed, 93 (62%) respondents strongly agree that using ATM helps in solving their banking needs whereas 60 (40%) respondents strongly agree that using POS helps in solving their banking needs. 57 (38%) respondents strongly agree that mobile banking helps in solving the banking needs. Moreover, 55 (36.67%) respondents agree that E-Wallet helps in solving their banking needs. 51 (34%) strongly agree that RTGS/NEFT helps in solving their banking needs.

**Ease of Use:** Ease of use can be defined as the degree to which a person believes that using a particular system would be free of effort. To measure the ease of use of the Financial Innovations introduced by banks, the sample respondents were asked questions like “Financial innovations make my way easier to solve my banking needs.” and “Using Financial Innovations enables me to accomplish banking activities more quickly.”

Figure 2: Opinion on ease of use of Financial Innovations in solving banking needs

![Graph showing responses to ease of use of financial innovations.]

Source: Primary data compiled from field survey

Figure 2 shows that 92 (61.33%) respondents strongly agree that the use of ATMs helps them to solve their banking needs. 60 (40%) respondents strongly agree that use of POS and mobile banking helps them to solve their banking needs. 48 (32%) respondents agree that use of E-Wallet helps them to solve their banking needs.
their banking needs. And 59(39.33%) strongly agree that use of RTGS/NEFT helps them to solve their banking needs.

**Compatibility**: Compatibility is a state in which two things are able to exist or occur together without problem or conflict. To measure the compatibility of Financial Innovation introduced by banks, the sample respondents were asked questions like “Financial innovations are well suited to my lifestyle.” and “Automated banking services make me uncomfortable.”

Table 1 shows the opinion on suitability of FI in lifestyle

<table>
<thead>
<tr>
<th>Financial innovations are well suited to my lifestyle.</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Undecided</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nos</td>
<td>%</td>
<td>Nos</td>
<td>%</td>
<td>Nos</td>
<td>%</td>
</tr>
<tr>
<td>ATM</td>
<td>0</td>
<td>0.00</td>
<td>8</td>
<td>5.33</td>
<td>10</td>
<td>6.67</td>
</tr>
<tr>
<td>POS</td>
<td>4</td>
<td>2.67</td>
<td>12</td>
<td>8.00</td>
<td>38</td>
<td>25.33</td>
</tr>
<tr>
<td>Mobile Banking</td>
<td>0</td>
<td>0.00</td>
<td>15</td>
<td>10.00</td>
<td>23</td>
<td>15.33</td>
</tr>
<tr>
<td>E-Wallet</td>
<td>2</td>
<td>1.33</td>
<td>31</td>
<td>20.67</td>
<td>31</td>
<td>20.67</td>
</tr>
<tr>
<td>RTGS/NEFT</td>
<td>6</td>
<td>4.00</td>
<td>23</td>
<td>15.33</td>
<td>36</td>
<td>24.00</td>
</tr>
</tbody>
</table>

Source: Primary data compiled from field survey

Table 1 shows that 89(59.33%) respondents strongly agree that ATMs are well suited to their lifestyles. 63(42%) respondents strongly agree that POS and Mobile Bankings are well suited to their lifestyles. 50(33.33%) respondents strongly agree that E Wallets are well suited to their lifestyles. And 57(38%) out of 150 respondents strongly agree that RTGS/NEFT are well suited to their lifestyles.

**Observability**: Observability is the capable of being or liable to be observed or noticed. To measure the observability of Financial Innovation introduced by banks, the sample respondents were asked questions like “I am very much aware of the financial innovations made by banks.” and “If more awareness about the Financial innovations and their benefits are communicated to the common masses, people will be more convinced towards the acceptance of Financial Innovations”

**Fig 3**: Opinion on awareness of Financial Innovation made by banks

![Opinion on awareness of Financial Innovation made by banks](source.png)

Source: Primary data compiled from field survey
Fig 3 shows that 82(54.67%) that they are very much aware of the ATM facility provided by the bank. 60(40%) respondents strongly agree that they are very much aware of the POS facility provided by the bank. 58(38.67%) respondents agree that they are aware of the Mobile Banking facility provided by the bank. 46(30.67%) respondents strongly agree that that they are aware of the E wallet facility offered by the bank. And 50(33.33%) strongly agree that they are aware of the RTGS/NEFT facility provided by the bank.

**Trialability:** Trialability is the degree to which an innovation may be experimented on limited basis. To measure the trialability of Financial Innovation introduced by banks, the sample respondents were asked questions like “Before I use financial innovations offered by the banks, I need to try for at least one month.” and “Financial innovations are available to me to adequately try it.”

Table 2: Opinion on trialability of Financial Innovation before using.

<table>
<thead>
<tr>
<th>Before I use financial innovations offered by the banks, I need to try for at least one month</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Undecided</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nos.</td>
<td>%</td>
<td>Nos.</td>
<td>%</td>
<td>Nos.</td>
<td>%</td>
<td>Nos.</td>
</tr>
<tr>
<td>ATM</td>
<td>9</td>
<td>6.00</td>
<td>12</td>
<td>8.00</td>
<td>10</td>
<td>6.67</td>
</tr>
<tr>
<td>POS</td>
<td>3</td>
<td>2.00</td>
<td>11</td>
<td>7.33</td>
<td>22</td>
<td>14.67</td>
</tr>
<tr>
<td>Mobile Banking</td>
<td>5</td>
<td>3.33</td>
<td>13</td>
<td>8.67</td>
<td>19</td>
<td>12.67</td>
</tr>
<tr>
<td>E-Wallet</td>
<td>8</td>
<td>5.33</td>
<td>16</td>
<td>10.67</td>
<td>16</td>
<td>10.67</td>
</tr>
<tr>
<td>RTGS/NEFT</td>
<td>10</td>
<td>6.67</td>
<td>14</td>
<td>9.33</td>
<td>20</td>
<td>13.33</td>
</tr>
</tbody>
</table>

Source: Primary data compiled from field survey

Table 4 shows that 102(68%) respondents agree that they need to try ATM at least before one month before using it. 108(72%) respondents agree that they need to try POS and E Wallet at least one month before using it. 107(71.33%) respondents agree that they need to try Mobile Banking at least one month before using it. And 101(67.33%) respondents agree that they need to try RTGS/NEFT at least one month before using it.

**CONCLUSION**

The Indian financial landscape is changing rapidly. As economic globalization intensifies competition and creates a climate of constant change, winning and keeping customers has never been more important. Nowadays, Banks have realized that customer focused performance is a very important factor for their success. Customers are accepting financial innovations made by the banks and making them a part of their day today lives. Awareness among customers have increased regarding financial innovation to a great extent. Use of the Financial Innovations have seen to increase over the period of time.

This period has witnessed one of the most crucial turn in the history of banking sector “demonitisation”. It has added the plethora of challenges to the banks as well as it stared a change in the banking behaviour among the common masses. Commercial banks has seen many ups and downs in their business due to demonitisation. Because of demonitisation the banking customers are compel to accept innovative practices to carry out their banking needs. Therefore it has become imperative for
the banks to redesign banking product and services to meet the customers requirement in order to ensure “Responsible Financial Practices”.

REFERENCES