A LITERATURE REVIEW ON THE EFFECTS OF LIQUIDITY CONSTRAINTS ON NEW FINANCIAL PRODUCT DEVELOPMENT

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ABSTRACT

The study discusses the benefits and the challenges associated with new product development in commercial banks and outline the possible techniques that can be implemented to promote successful new product development. Furthermore, a discussion on how financial regulations effect new product development is made. The study adopted a desk top methodology. Research outcomes proved that liquidity constraints are a major impediment to firm`s innovativeness. Financial project innovations are not started, delayed or abandoned but mostly for financial products the distribution and delivery of the developed services is highly affected. Thus basing on literate reviewed, the researchers concluded that there is a negative impact on new financial product development due to liquidity constraints. In liquidity constraints times, we recommend that commercial banks should emphasize more or invest their available funds in the best technique suitable for successful new product development.

Keywords: Liquidity Constraints, Commercial Banks, Financial Product Development, Banks.

INTRODUCTION

The rising significance of the banking industry as well as its new financial product developments in the liquidity constrained economy of a developing country has led to a research concern in financial innovation. Effective product development is vital for the survival, expansion and profitability of most financial institutions. The financial market is now encompassed with many difficulties, drawbacks, obstacles, uncertainties and risks due to the dynamic landscape of demanding clients and technological advancement. Consequently, this brings the necessity of introducing new products that enable effective risk management, boost liquidity and portfolio diversification. The objective of this study is to review the literature on the impacts of liquidity constraints on new financial product development, the benefits derived from new product development, the various challenges encountered in developing new financial products and the techniques that can be articulated in the context of developing successful new product in commercial banks. This paper seeks to bring to light the existence and the impact of financial frictions on the propensity of commercials banks to innovate.

Liquidity Constraints and New Financial Product Development

New financial product development is defined by Dewati (2015) as the introduction of new financial instruments in more radical and sophisticated financial markets. Dewati (2015) further suggests that the presence of new financial products can rally allocation of resources, reduce growth instability, enable firms to have a financial structure that is quite stable and household consumption is smoothened. However, in the context of the presence of financial constraints, firms are highly incapacitated to carry out their new product innovations (Segarra et al., 2013). Bowen et al. (2010) define financial constraints as the incapacity of a firm to obtain the necessary financial resources to enable them to fund their investment and growth. In support Aas et al. (2011) suggest that a firm is said to be financially unconstrained if it has the ability to implement its innovation projects at optimal scale and is financially constrained if it is not capable to do so owing to a shortage in funding.

Impact of Liquidity Constraints on New Financial Product Development

Financial constraints may represent a severe hindrance to firms' innovativeness (Bowen et al., 2014, Segarra et al., 2013). Segarra et al. (2013) is of the view that financial frictions, to innovation, are an important constraint hampering firms from upgrading and implementing innovations to decrease the gap between these firms and the technological frontier. There is a solid impeding effect of financial constraints on research and development (Almeida and Campello, 2002). Due to lack of access to funds, some innovation projects are prone to not being started, may have to be deferred or are abandoned. In a supporting view Mancusi and Vezuli (2010) are of the view that there is a significantly negative impact on the probability to implement research and development activities due to the existence of financing constraints. The impact of research and development on productivity at the firm level curtails from the execution of newly acquired knowledge and technological innovations into new products, reductions in cost of producing existing products or services, enhancement of existing products and production processes or (Imeson and Pugh, 2012).

However, tighter liquidity constraints improve firms' innovation efficiency (Segarra et al., 2013; Almeida et al., 2002). Almeida et al. (2002) argue that organisations with extra free cash flow are likely to invest their excess funds in negative innovative projects due to agency complications. Firms that are more financially constrained have lesser free cash flow hence there more likely to take optimal investment decisions. This disciplinary benefit of liquidity constraints is principally important to innovation related investment such as research and development (Balaceanu, 2011). Li (2009) suggests that the relationship between liquidity constraints and innovation efficiency could go in either direction.

Literature stands out in evaluating the impact of liquidity constraints on investment in research of a new product but leaves out the impact on the final output in the distribution and delivery of the project. In the case of ZB Bank, products are mainly affected at the distribution stage but after a successful launch, for example, the informal trader savings account (Press Statement by SK Chiganze, ZB Head Corporate Banking).

BENEFITS ASSOCIATED WITH NEW FINANCIAL PRODUCT DEVELOPMENT

Improved Quality

According to Berger (2013) new financial product development leads to improved quality and creates a variety of banking products (Berger, 2013), helps facilitates risk management and completes the market (Almeiida and Campello, 2013) and also aids in improved allocative efficiency (Lapavitsas et al., 2008). Imeson and Pugh (2012) suggest that financial product development has played a crucial role in reducing the instability of economic activity in the early parts of the 21^{st} century. Examples of financial innovation include new products such as securities, new processes, such as financial credit scoring, new financial markets such as internet banks (Berger, 2013).

However, some financial products and services are very complex and so opaque and very few people understand them well and how they work (www.investopedia.com). D'Este et al. (2012) points out that innovative financial products have continuously been introduced on the asset and liability sides, for instance, credit cards and mortgages whereas financial literacy seem to remain low. This calls for product complexity. Morrison and Foster (2012) brings out the issue that the complexity of a financial product typically affects how easy it is for the client to understand the risk or reward profile related to the product. Clients may fail to analyse the risk as the risk may not be that apparent and easy to understand. Keys et al. (2010) indicate that many customers resist using innovative financial products such as e-banking because they fear such related risks. In addition, most bank customers prefer old products to new ones, for example, with e-banking, customers prefer off-line banking since it generally employs clerical personnel to confirm whether the clients` account number and the amount deposited or withdrawn are correct, but such kind of safeguards are seldom available in online banking, thus it can evoke a feeling of insecurity and uncertainty. More so the convenience and speediness of some financial products, for instance, paying by card often leads to people overspending and getting themselves in a trend of debt before they realise it. Carlson and Mitchner (2005) argue that new product development does not guarantee improved quality, as quality is guaranteed by customer satisfaction. They add on that some products fail because of poor quality thus new product development can either bring improved quality or poor quality.

ZB Bank has since introduced financial products of improved quality such as more cover funeral policy, stash savings etc. The complexity of the products to, especially to the local consumers however still remains in understanding how the various fees are charged to the accounts. This research seeks to quantify benefits of new financial products in terms of improved quality.

Competitive Advantage

Commercial banks have been dependent on bringing new innovative products to the market (Hunt, 2013) Financial product innovation within the banking industry is an effective source of competitive advantage (Berger, 2009) and fundamental in establishing and fostering competitive advantage (Saviganac, 2008). Through differentiating themselves from competitors, commercial banks can realize a price premium (Berger, 2009). Acting to fulfil customer needs enables the companies to call for higher service fees for their market offerings (Berger, 2009). In support Sundar (2012) postulates that financial product innovations also add value to firms' market offerings hence competitive advantage. In new product development, firms innovate in familiar markets. By their service based business model, banks typically possess the required financial market knowledge and understanding of their communication with clients (McNally et al., 2010), which certifies effectiveness and efficiency and when rolling out innovative products to a targeted market segment.

Watanagase (2012) is of the view that through occupying strategic market positions and attending customers who value these market offerings, banks gain superior performance and thus obtains competitive advantage (Watanagase, 2012). Supporting this view, Wyman suggests that fulfilling customer needs and wants is essential for competition (Wyman, 2012). Within the financial markets, in which many banks find it difficult to differentiate their products from their competitors' market offerings, service innovations deliver an important basis of competitive advantage that might ultimately lead to improvements in financial performance (Aas and Pedersen, 2011).

However, Imeson and Pugh (2012) argue that a new product that is much closer to already existing products will add a lesser amount of consumer surplus therefore less competitive advantage. In addition, Ebarefimia (2014) is of the view that if the power to launch a countermove is underestimated, there will be less competitive strength (Ebarefimia, 2014). Verman (2010) is of the view that first new products were somewhat likely to fail than second products of other firms therefore it erodes competitive advantage. According to Wyman (2012), it is one thing to innovate, but exclusively another thing for the novelty to be acknowledged by consumers. More so, when firms fail to take advantage of opportunities, fail to emulate imitable resources, to solve solvable problems and to execute chief strategies in new product innovation it leads to competitive disadvantage (Powell, 2010).

The introduction of products such as stash accounts has seen ZB Bank maintaining competitive advantage as some banks have not yet introduced such products in their operations. The research will look at the extent to which new product development benefits commercial banks in terms of competitive advantage.

Revenue Growth

Financial product development can highly impact firm's performance positively (Chavan, 2013). Thus, there is an expected positive impact of product innovations on revenue growth. Precisely, when new products are introduced, they are faced with little direct competition and resultantly generate higher product margins. Any product innovation created has many attainments such as reducing the trade deficit and recuperating the firm during fall times (Hausman and Johnston, 2014). The financial innovations may prove to be helpful for firms to save in cost and time, obtain an advantage on the interest and tax rates and subsequently increase their profits.

However, Verma (2010) argues that, only a few innovative products are completely developed to fulfil customer needs and develop through initial few versions, most new products may never make it through the evolution course of initial few versions to enable fulfilment of customer needs in a significant manner and in such cases companies expected revenue paybacks remain unmet. More so, effects of the shift in revenue growth will also depend on the degree of innovation in comparison to the other products offerings by other institutes, the willingness of potential customers to pay and/or the competitor firms react (Wyman, 2012).

The study seeks to analyse whether increase in revenue growth is attributed solely to new financial products or they are supported by existing products. According to the ZBFH Interim Financial Report (2015), on the backdrop of a tight operating environment, the Group posted a profit of $4.1 million in the first half of 2015. This performance has been achieved through a relentless implementation of the since introduced paperless banking.

Risk Management

New product development in the financial industry has raised risk administration instruments Mansury et al. (2008). New offerings in the financial market elevate efficiency within the financial industry. They give the investors different various access channels in the capital market (Bowen et al., 2010). They can likewise be broadly used as instruments for risk administration (Chavan, 2013). In the midst of highly instable financial markets there much greater need for risk management and this can be brought about through product innovation.

Without access to credit derivatives, lenders would not be able to hedge their risk and expand the market for credit. That is, without hedging, lenders would not be willing to supply a large number of loans at their fundamental prices and instead would demand an extra premium as the supply of loans increased (Chavan, 2013). As new markets have opened up and made new hedging opportunities available, they have increased the expertise necessary to devise strategies and make effective use of these opportunities.

On the other hand, Chavan (2010) contends that developing financial products have resulted in more challenges for the financial market participants together with their regulators in regard to systemic risk. New products arise with their own risk. A key feature of financial innovations is rapid upturn in new products and changes in the financial market structures have outpaced the risk management developments (Hunt, 2013).

Reduced Costs

This involves the cost of using and availing the various banking products and services. Chavan (2013) is of the view that new financial product development reduces costs in accessing and consuming the banking services (Chavan, 2013). For instance, these developments may have broad effects for households, facilitating new choices of investment and consumption to be made and also reducing the costs of rising and deploying funds (Hunt, 2013) Internet banking leads to efficiency gains. Automated routine bill payments, reducing the need to substantially visit the bank branch and the capability to work as required rather than on banking hours only may reduce the time taken in execution of routine banking activities.

However, Savignac (2008) is of the view that some financial products are somewhat costly in other parts, for example, internet banking requires that significant investments in broadband infrastructure upfront be made and thus has partial outreach in developing countries (Savignac, 2013). In addition, connection devices for bank clients, such as personal computers, smartphones and tablets, are rather expensive and significantly require more electricity than point of sale devices (Savignac, 2013). Mcnally et al. (2010) argues that banking customers do not want to use all banking channels to conduct transactions as that has effects of digital disruption on consumers thus the effect of cost reduction is not fully obtained. Chavan (2013) adds on that, ATMs cause weighty investment costs and maintenance costs and have partial outreach in developing countries which makes it relatively costly.

CHALLENGES OF NEW FINANCIAL PRODUCT DEVELOPMENT

Technological Advancement

Technology plays a key role in the financial performance of commercial banks. According to Li (2009), new product innovation has never been so perplexing and rewarding as it is presently. Technology advancements are creating complexity in the current financial markets and it has become increasingly difficult to forecast the performance of new financial products (Berger, 2012). For commercial banks to survive there is need to adapt to the technologically changing environment where expectations are changing rapidly (Lapavitsas, 2008). Chavan (2013) postulates that adapting to change is the prime factor contributing to the problems of new product development. He adds on that ability to manage change is the essential part of new product development (Chavan, 2013). Technology advancement and application is changing at a too fast pace and catching up becomes difficult once an institution lags behind (Keys et al., 2010). Introduction of new technology enables competitor banks in the industry to develop improved financial products than the existing products. Imeson and Pugh adds that most of the financial services hardware and software has been there for some time, but new advancements are constantly being developed, new hardware designed and completely new applications launched. Commercial banks need to make sure that they are as up to date as possible

(Imeson and Pugh, 2012). Keys et al. (2010), who in his capacity as Deputy Governor of Zimbabwe stated that technology rather not a disabler but is a driver that motivates and innovation and enhances efficiency in banking institutions.

Technology advancement is a challenge in the Zimbabwean market as there is need to keep on modifying the product to match the market requirements and providing funds for modification (Chavan, 2013). According to ZBFH 2012 Financial Statements the Group an Information Technology Committee which reviews developments and proposes enhancements to the technological platform is in place.

Lack of Savings

According to Wright (2014) savings in the domestic market helps to sustain growth in the local capital and money market. Low domestic savings give rise to liquidity problems thus hampering the development of new financial products (Segarra et al., 2013). Savings encourage product research in the banking industry and also escalate the adoption of the new financial products by clients. Capital markets provide an accessible and economical variety of financial instruments to encourage savers, largely households, to shift from real assets into financial assets. Wyman (2012) adds on that adequate domestic savings is central to the supporting and promoting the development of new financial products. Business innovation projects are sustained by the availability of sufficient savings in the country (Hunt, 2013). In the developing countries, most savings are channelled to the basic commodities and in so doing reduces savings for financial innovation activities.

In addition, Hunt postulates that adequate savings pointer to adequate liquidity. Inadequacy of liquidity in the market leads to limited opportunities for diversification and probability of new product failures is increased (Nick, 2011). Some products like index options, index futures and index funds, needs adequate liquidity to effectively introduce them in the financial market (Nick, 2011). All components must be liquid for the product to be introduced and make a positive contribution in the market. The most catastrophic aspect of savings shortage and its negative effect on new product development is that it becomes a self-feeding process with liquidity shortages leading to inaccessibility of finance funds and credit, leading to further liquidity shortages with an ensuing downward spiral (Nick, 2011). This indicates that if a financial institution has got low savings leading to financial distress, no institution will be willing to issue it money or to carry business on credit basis. Consequently, developing new financial products requires the banking institutions to be liquid to in order to sustain its finance developments. Aas et al. (2011) stands with that deposit savings belongs to the clients and can be withdrawn at any time therefore banking institutions should rely on them only to the extent of fees charged.

Zimbabwean commercial banks are said to be lacking savings as a result of high bank charges and low or no deposit interest rates offered by the banks (http://www.rbz.com) and also due poor salaries that are being offered by the Zimbabwean industry. The savings are regarded as being short term in nature. ZB Bank has also reported low savings, regarding the savings as being short term in nature (ZBFH Financial Statements, 2015).

Skilled Workforce

The skills and knowledge embodied in people, is the one most relevant core capabilities to product innovation (Chavan, 2013). Skilled workforce is a major input in designing new products. The knowledge and skills encompasses the firm specific and financial understanding of the industry. Dotzel et al. (2013) instituted that innovation in derivatives in most developing countries financial industry is being hampered by lack of adequate skills. New product development requires creativity, on activity which is often irregular and unpredictable but which requires highly trained specialist individuals, people working at the boundaries of their respective fields (Dotzel et al., 2013). The major challenge facing the banking sector today is whether the management has the necessary creativity and entrepreneurial drive to provide bank customers with new financial products that satisfy their ever changing financial needs (Chavan, 2013).

New financial product development calls for the skill and proficiency in the finance, technical, research and development and IT (information technology) functions (Irvine, 2011). Due to lack of expertise, finance professionals usually rely on historic data to define risks, weigh propositions and appropriate financial products (Stevens et al., 2014). The use of historical data to develop new products tends to be very risky as the conditions of operations are changing on a daily basis. Successful new financial products often materialise from an internal, expert based development structure that, on a systematic basis, creates designs and champions new financial products (Storey et al., 2009). Thus the success of financial product development is also determined by the expert skills within the organisations. Financial institutions can enhance their performance through harnessing their high technology resources and human skills for the development of innovative new products.

According to ZBFH Financial statement (2015), the in-house expertise that has been gained over the years and the strong support available from the vendor of the platform has been helpful in technological advances. However, this research will quantify the impact of lack of skilled workforce on new financial product development.

Competition

For continual survival and growth, commercial banks must be able to outpace competition. High levels of competition within commercial banks have prompted essential changes in business conduct and performance (Verman, 2010). This show that an upturn in commercial banks leads to an increment in the innovation levels in the financial markets (Balaceanu, 2011). Competition within commercial banks drives them to strategize on new different products in order to sustain competitive pressures. This specifies that competition on its own is a determinant of financial product development (Keys et al., 2012). However, in developing financial markets, high levels of competitive pressures lead to reduction on returns from new products. Thus, commercial banks are discouraged from innovating (Chavan, 2013). Because consumers of financial services are so price conscious and relatively less loyal to certain financial services providers, commercial banks should attempt to introduce new products or develop existing ones that they gain and maintain market share.

Nature of Financial Products

Designing a financial service product is more of a complex task that needs much greater comprehension on the combination, conveyance and delivery of the supporting items so as to meet the customer satisfaction (Chavan, 2013). The impalpability of most financial products causes difficulties to the development team in appraising the quality of new products. This incorporates displaying human characteristics such as positive thinking, ego and inspiration. The indiscernible structure linked with innovation, markets, financial aspects and frameworks are for all intents and purposes difficult to display in the advancement of new items.

The intangibility, heterogeneity and inseparability of services inevitably create some difficulties in the process of developing an appropriate product strategy (Sundar, 2012). The characteristics of a product also determine its product strategy. Product strategy covers production strategy and marketing strategy. The intangibility of financial products presents a certain risk for the customer, as he cannot fully assess the service prior to purchase. Therefore, there is high variability in the service industry. New financial products are sometimes difficult to understand and to evaluate, therefore, customers may use tangible cues (i.e. branches, staff and other physical evidence) to judge the nature and quality of the new product offered (Wind, 2012). An analysis of the statement indicates that the success of new products is also determined by the reputation of the bank. Therefore, banks must ensure superior physical evidence so as to increase customer acceptance in their new products.

Most financial products in the commercial banks of Zimbabwe have gone digital and thus it has been difficult to evaluate the product their success in new product development. Most monetary items in the business banks of Zimbabwe have gone advanced and in this manner it has been hard to assess the item their achievement in new item improvement. The exploration goes for measure the degree to which nature of money related item influence new item advancement.

DEVELOPING NEW SUCCESSFUL FINANCIAL PRODUCTS

The success of a new financial product is in the hands of the organisation. An organisation needs to ensure that all the requirements of new product development are set effectively to reduce the chances of new product failure. For a new product to be successful a conducive environment must be promoted first before engaging in new projects.

New Product Strategy

Earlier to initiation of an NPD project, firms must establish objectives and conceive a new product strategy (NPS) to meet them (Wind, 2012). The purpose of this stage is to provide guidance for the new product effort. It identifies the strategic business requirements that the new product should comply with and these are derived from the corporate objectives and strategy of the firm as a whole. These business requirements assign roles to be played by the new products, which in turn are influenced by the needs of the industry (Booz, Allen & Hamilton, 2010). According to Fontales (2010) because developing and launching a new savings product can be costly, the financial institution must ensure that the new product is justified. In some cases, adjustments to existing products can fulfil a perceived need for a new product. All avenues for adapting an existing product to meet unfilled demand should be explored before a new product is developed. Given the high cost of developing and launching new products and considering the risk involved it is important to confirm the need for the new product through market research.

However, a product development strategy can fail to deliver its benefits at different stages in the process. When the team is not generating ideas it may not carry out sufficient research into market requirements leading to developments that do not meet customer needs (www.profitinsight.com). Managing the NPD process has become a challenge for firms as it requires extensive financial and human resources and is time sensitive (Nick, 2011). The problem at this stage is not only one of developing a clear strategy but also its implementation, i.e., translating the strategy into terms that everyone understands to bring focus to day-to-day actions and communicating the strategy with other members in the organization. Once a clear NPS is defined, the related confounding problem is communicating clearly the needs, requirements, resources and plans for a new product effort in essence, internalizing the strategy (Nick, 2011).

Recognising value of customer feedback

According to Shopell and Davis (2010) feedback from clients in your targeted market is the key factor leading to successful new product. It is vital to recognize the importance of feedback from customers during development. Carrying out of a successful new product launch starts months back before the actual launch, it begins with successful absorption of feedback from the targeted market. In addition, they say that the quality of time invested in assessing and prioritizing feedback objectives has got a direct impact on the quality and quantity of information learned. According to Nick (2011 understanding existing customers and potential customers who currently are not doing business with the entity is quite fundamental in the development of new financial products.

Competitor Activities

When a financial institution presents a new product or improves the existing one, it stimulates a reaction from its competitors. Nick (2011) argues that competition must be monitored closely and continuously financial institution is to adapt quickly to changes in the domestic market. Fontales (2010) postulates that monitoring the competition is an intelligence gathering activity aiding to a market research activity. Keeping a close eye on competitor's stems from gathering the competitions' marketing strategies to hiring mystery shoppers to visit competitors' areas of operation in an attempt to search for information.

New Product Launch

According to Nick (2011) marketing new financial products necessitates an aggressive approach. A significant heavy launch effort must be executed so as to gather enough momentum for the new product attracts attention of potential users. Aggressive marketing may require mass media campaign (Barker, 2011). The campaign`s aim is to attract attention of the targeted existing and potential customers who seek savings services. Newness of a product s can also be boosted through the use promotions e.g. instant prizes or raffles. The performance of a new product, in the long run, depends on the motivation and awareness derived by the launch. Shopell and Davis (2010) support the view that personnel should be educated on the launch campaigns so that they know the messages clients to deliver to clients so they can strengthen them when clients pay a visit to the institution. Personnel should be able to respond to client on questions of new products.

Each and every organisation has its own techniques of promoting successful product developments and thus ZB Bank also have its own way.

Regulation involves the rules that oversee the behaviour of intermediaries (Chavan, 2013). In regulating financial institutions, regulators must ensure that their involvement minimizes moral hazard and systemic risk and also that safety and soundness of the financial system is safeguarded without discouraging financial innovation (NCCR Working Paper, 2012). The innovation of financial products proposes both threats and opportunities to the market, thus it is very essential for the regulators to have an in-depth understanding of the features of the products, product qualifications and knowledge of the institutions dealing in the products innovations, clarity of the transaction and its process so as to minimise threats and opportunities are exploited in the best possible way (Nick, 2011).

Regulation imposes a compliance burden on financial institutions, which may force them to diverting their time and financial resources from financial innovative activities to compliance energies (Stewart, 2010). For instance, financial reporting regulation can cause a firm to divert resources from its research and development department to its internal auditing department. Financial developments often react to regulation by sidestepping the regulatory restrictions imposed that would somewhat limit innovative activities in which institutions wish to engage in. Counter to this, institutions may be unable to attain compliance with existing services and processes and therefore, under the assumption that the companies do not shut down, financial regulation may deter either compliance innovation (Stewart, 2010).

Taylor et al. (2012) argues that government regulation can encourage market innovation. Jaffe & Palmer (2010) findings out financial regulations boost certain types of innovation. Majumdar & Marcus (2011) postulates that only regulations designed in the right mode can have a positive effect on financial innovation. Major financial regulations presently affecting commercial banks include minimum capital requirements, minimum liquidity coverage and supervisory regulations NCCR Working Paper (2012). According to the NCCR Working Paper minimum capital requirements are increased to enable companies to withstand shocks due to flexibility of financial institutions but in argument it was postulated that capital requirements escalates the cost of raising funds to the borrowers. The NCCR Working Paper also notes that supervisory agencies help reduce risk in the financial market. Watanganase (2012) is of the view that influence of supervisory agency raises the reporting and processing expenses and restrictions on bank the activities of the bank. Watanganase also argues that new regulatory reforms result in extra regulatory costs to the financial institutions has money is diverted to innovation. This is also supported by Jomini (2012).

Commercial banks in Zimbabwe were required to maintain minimum capital levels of $25 million. ZB Bank has been taking various strategies and this might cause it to divert its time and money from new product development.

CONCLUSION

Literature leaves out the gap of whether cost reducing products are also made available to all consumers, that is, both the literate and illiterate. ZB Bank has introduced agency banking as a way of reaching out to all parts of the nation and to reduce cost of travelling to clients who are located in the rural areas. New financial product development is important for the persistent success of a financial institution. Liquidity constraints have arisen to be a major obstacle hindering new product development due to its robust negative influence on research and development. Despite the challenges and risks associated with new financial product development banks must continue innovating in order to satisfy the new changing customer demands. Besides the risks and challenges of developing new products, new financial products can also bring benefits such as revenue growth, investment promotion, profitability, enhancement in risk management, reduction in transaction costs, integration of different financial markets and enables more efficient allocation of resources between different financial markets.

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