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A Study on Financial Innovations and the Role of E -Commerce

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Abstract: *This study talks about the job that monetary developments play in the cutting edge monetary framework, targeting distinguishing and arranging the center issues and definitions connected with this issue. The paper begins by outlining the significance of the financial system and financial markets to the economy, describing their functions and highlighting the innovativeness of each. The theoretical studies are then used to develop a broad definition of financial innovations, which states that any new developments in any part of the financial system, such as: Financial innovations can include markets, institutions, instruments, and regulations if the innovation's end user finds them novel. The most significant financial innovations are then organized according to a variety of classification criteria, including: sources, motivations, and effects or functions of innovations The final assessment of their role cannot be generalized and should be made on a case-by-case basis because financial innovations are not a homogenous group of financial developments and their implications for the financial system can be ambiguous.*

Keywords: introduction to the financial system, market, and innovations in the financial sector

I. INTRODUCTION

The modern financial system is characterized by a rapid rate of innovation, both in terms of their value and number. As a result, it is essential to investigate their impact on the financial system. Numerous studies on this issue have recently been published, but most of them focused primarily on the global financial crisis or a single type of financial innovation. In addition, neither the types of financial innovations used in these studies nor the definitions used for them are consistent. Accordingly, the principal point of this reasonable paper is to embrace an endeavor to arrange the present status of information connecting with the monetary advancements. The paper analyzes the current writing applicable to the issue of monetary advancements and their part in the monetary framework.

A definition of financial innovations with both broad and narrow meanings is developed on the basis of this survey and the definition of a financial system. After that, the most crucial criteria are used to analyze and systematize the applied classifications of the financial innovations. The roles that the financial innovations play are the subject of another discussion in the paper. They can perform a variety of functions because they are not a homogenous group; however, these functions should also be categorized. Based on the assumption that the primary objective of the financial innovations is to improve the financial system's efficiency in performing its functions, the paper includes the proposal to order these functions according to those of the financial system. It goes without saying that the financial system can be affected in different ways by various financial innovations. As a result, the paper concludes that each financial innovation should be examined separately for its mechanism of operation and potential effects on the economy as a whole.

The significance of the financial system to the modern economy According to Pietrzak, Polaski, and Woniak (2008), p. 20; the financial system is defined as the collection of markets, institutions, instruments, and regulations through which financial securities are traded, interest rates are set, and financial services are produced and delivered around the world. The modern economy cannot exist without the financial system of Rose and Marquis, 2009). The monetary framework is viewed as one of the main manifestations of the cutting edge society and it is portrayed as a coordinated piece of the monetary framework and by this - a huge piece of the social framework As the coordinated piece of the worldwide monetary framework, the monetary framework decides the expense and the amount of assets accessible in the economy to pay for each day buys. It establishes the mechanism by which money moves between various economic entities, including: governments, businesses, households, and financial institutions

The functions of the financial system can be categorized in a variety of ways.

As per the first - the general methodology, the monetary framework plays works that can be gathered in three sets:

1) the function of money,
2) the function of distributing capital, and
3) the function of control

The organization of the payment system is connected to the process of money transfer between economic entities and the creation of money in the economy, which is part of the monetary function. The public financial system and the market financial system are the two dimensions in which the capital allocation function is realized. In the event of the principal aspect, the market monetary framework empowers to move the excess assets to the most encouraging deficiency units and by this adds to the financial development. In the second, the public financial system makes it possible for us to gather funds that can be used to finance public goods, social services, and benefits, thereby promoting and maintaining economic growth. We are able to keep an eye on how money is being used in the economy by using the controlling function. The development of the economy as a whole is determined by the effective realization of the distinct functions' multidimensional interactions.

The definition and history of financial innovations Innovations play a crucial role in economic growth. According to the standard definition, innovations occur when innovative concepts, methods, and tools are put into action to alter a company's circumstances and enhance its situation. Innovations are put to use to make a company more competitive and to create value for its owners (compare: 2011, Dabic, Cvijanovic, and Gonzalez-Loureiro; Sankowska, Watuchowicz, Grudzewski, and Hejduk, 2010, p. 116). The supportable development of the cutting edge business element is inconceivable without the legitimate advancement the board joined by the information, data, notoriety and trust the executives.

Financial innovations are not a new occurrence because they have always been in tandem with technological advancements (Michalopoulos, Leaven, and Levine, 2009, pp. 2-5). It is common knowledge that technological and financial innovations are intertwined and evolve simultaneously over time (see figure 2). When traditional sources of funds are unavailable due to high investment risk, financial innovations provide a mechanism to finance innovative technological projects. What's more, then again, the mechanical and monetary advancement bringing about the higher intricacy of business processes and new sorts of hazard powers the monetary framework and monetary business sectors to take on to the changes, to be modernized by the new necessities of the business elements and to the difficulties of the cutting edge world. This leads to the conclusion that nations' wealth would decrease and technological and economic development would slow down if financial innovations were not implemented. Without the demand generated by technological advancement, the application of financial innovations would be limited at the same time.

As a result, financial innovations are not a brand-new problem. However, their significance has increased recently, as the pace and variety of financial innovations have accelerated since the middle of the 1990s (Llewellyn, 2009, p. 1). One must begin with their definition before beginning the analysis of the role that financial innovations play in the contemporary financial system. As with technological innovations, financial innovations do not have standardized definitions, so this term needs to be standardized.

As a result, as a summary of the findings, the term "financial innovations" can be understood in two ways :

1) Any new developments in financial instruments (completely new instruments, combinations of traditional instruments, modifications of traditional instruments, new applications of existing instruments, etc.) are included in the narrow definition of financial innovations.

2) Any new developments in any aspect of the financial system—markets, institutions, instruments, and regulations—are included in the broad definition of financial innovations.

Classification and functions of financial innovations

There is no single definition of financial innovations, so different approaches to their classification and functions exist. It is clear from the presented analysis of the definitions of financial innovations and the process by which they are created and implemented that financial innovations are not a single group of new financial developments. In this way, the systematization of their characterization would be sensible.

The monetary advancements can be grouped by different measures. The following are the most crucial aspects of the classification of financial innovations:

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(1) the sources of innovations,
(2) the factors influencing the process of innovation creation and implementation,
(3) the reasons for using financial innovations,
(4) the elements of the financial system where innovations occur,
(5) the types of innovations,
(6) the impact of financial innovation application,
(7) the moment of creation, and
(8) the underlying assets

The methodology of the BIS was developed and extended; according to this modified approach, financial innovations can play the following roles:

1) risk move - risk decrease or assurance against a wide range of market risk: cost risk, trade risk, loan fee chance or credit risk (for example by the utilization of subordinates, securitization or collateralization process),

2) risk estimating - the dangers that are typified in a monetary instrument can be stripped out, evaluated, held and exchanged independently from different dangers of this instrument (for example by the exchanges in optional business sectors for CDOs or ABSs),

3) liquidity improvement - expanding liquidity of the resources or instruments (for example by the securitization cycle the advances can exchanged the auxiliary business sectors and the resources construction of the loaning establishments can be improved)

4) credit-age upgrade - augmenting the admittance to the credit showcases or expanding the credit limit both for the borrowers and for the leasers (for example by the utilization of CDOs or CDSs),

5) value age - expanding the survey to the value funding along with the higher adaptability of the capital construction (for example by the utilization of obligation value trades or convertibles), 6) insurance - enlarging the potential outcomes to safeguard risk as a trade-off for the installment of an installment (for example credit hazard can be safeguarded by the issue of Discs),

7) resource and risk the executives - enlarge the extension for overseeing resources and liabilities (for example securitization, Discs, CDOs),

8) subsidizing of monetary organizations - broadening the wellsprings of monetary foundations financing (for example securitization empowers to expand the wellsprings of assets utilized by the monetary foundations to back their movement)

II. CONCLUSION

The advanced monetary framework is portrayed by high speed of developments that can happen in any of its components: institutions, markets, instruments, and regulations There are a variety of criteria that can be used to classify the financial innovations that have been observed in the financial system, indicating their heterogeneity. In spite of the distinctions in the applied characterizations, the hypothesis of monetary advancements is mostly centered around their belongings upon the monetary framework. The manageable monetary developments are expected, as they upgrade the proficiency of the monetary framework and by this they can work on the financial development and increment the social riches. However, some of the financial innovations may have adverse effects on the financial system, benefiting only a few participants at the same time as harming others. Consequently, the proficient utilization of specific monetary development requires a broad information about its approach to working and an intensive examination of its ramifications. The issue of financial innovations and their place in the financial system is extremely complex, as this survey demonstrates, and it has the potential to be a significant and intriguing subject for additional theoretical and empirical research.

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