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Innovation in the Financial Sector and FDI's Contribution to Economic Growth – A Study

[1]Dr. Supriya Desai, [2]Dr. Mukesh Agarwal, [3]Dr. Anju Singh, [4]Dr. R. Lavanya Kumari, [5]Dr. Kinjal Shah

[1]Assistant Professor, MBA, Indira College of Management Studies, Pune, Maharashtra

2Assistant Professor, Department of Commerce (School of Studies in Management and Commerce, Guru Ghasidas Vishwavidyalaya (A Central University), Koni, Bilaspur (CG)

[3]Assistant Professor, School of Management Sciences, Varanasi, UP, India

[4]Head, Department of Masters of Business Administration, Loyola Academy, Old Alwal, Secunderabad, TS

[5]Assistant Professor, Department of Finance, Lala Lajpatrai Institute of Management Mumbai University, Mumbai, Maharashtra

Abstract

The Indian economy is expanding at a rapid rate, and recent years have seen substantial changes in the country's financial sector. These changes have been spurred by innovation and Foreign Direct Investment (FDI). The purpose of this abstract is to investigate the connection that exists between innovation in India's financial industry and the role that foreign direct investment plays in the expansion of the Indian economy. This paper investigates how foreign direct investment (FDI) has led to increased levels of innovation, technical advancement, and overall productivity in India's financial sector, which has ultimately resulted in increased levels of economic growth. In recent years, the Indian financial sector has been subjected to significant change, which has been driven by developments in technology, changes in regulatory policies, and shifting preferences on the part of consumers. The advancement of financial technology, sometimes known as "FinTech," has been an important factor in India's efforts to increase access to financial services, advance the cause of financial inclusion, and boost the effectiveness of the country's financial ecosystem. Foreign direct investment has quickly become an important source of finance, technological advancement, and professional knowledge for India's financial sector. The expansion and innovation of domestic financial institutions is facilitated by the introduction of financial resources, knowledge, and best practices from throughout the world brought in by foreign investors. This abstract makes the case that Foreign Direct Investment (FDI) is an essential factor in both the promotion of innovation within India's financial industry and the acceleration of overall economic growth.

Keywords: FDI, Innovation, Financial Sector, Economic Growth, Foreign Direct Investment

Introduction

The inflow of capital from other countries in the form of direct investments is a significant driver of economic growth in India. In order to capitalize on India's rapidly changing economic climate and its relatively low labor costs, multinational corporations engage directly in private enterprises that are experiencing rapid expansion. After the economic crisis of 1991, India began the process of economic liberalization, and foreign direct investment (FDI) has been gradually increasing in the country ever since, which has resulted in the creation of more than one crore (10 million) employment.Foreign direct investment (FDI) in India provides a mechanism for a global corporation to get access to new markets for consumption and production, and consequently to grow its influence and commercial operations. Not only may it acquire access to scarce resources like fossil fuels and precious metals, but it can also obtain access to professional and unskilled labor, management skills, and technologies. An organization can also reduce its manufacturing costs with the assistance of FDI. This can be accomplished by gaining access to resources that are available at a reduced cost or by going directly to the source of the raw materials rather than purchasing them from a third party.

When a firm engages in foreign direct investment (FDI), the company may be eligible for a number of tax benefits. This can happen either when the home country enables tax deductions on overseas income or when the receiving country offers tax deductions and incentives for organizations that incur FDI in that country. Both of these scenarios are possible. In addition, this is a possibility in the event that the nation of destination possesses a tax regime

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that is more advantageous than the nation of origin. The returns on production that are generated by Foreign Direct Investments (FDIs) are driven by the positive externalities that they create, which in turn contribute to sustainable economic growth.

In addition to playing a crucial role in driving overall economic expansion, Foreign Direct Investment (FDI) has also played a vital role in India's economic progress by serving as a large non-debt financial resource. When companies from other countries invest money in India, they do so in order to take advantage of the country's unique investment incentives, which include tax reductions and salaries that are significantly cheaper than in other countries. This assists India in developing its technological expertise and also creates job opportunities, in addition to providing other benefits. These investments are flowing into India because of the favorable policy framework provided by the government, the lively business climate, expanding global competitiveness, and increasing economic influence.

Recently, the government has taken a number of steps, some of which include relaxing restrictions on foreign direct investment (FDI) in a variety of industries, including public sector organizations, oil refineries, telecom, and defense. During the fiscal years 2020-21, India saw unprecedented amounts of FDI inflows. The overall amount of foreign direct investment (FDI) came to 81,973 million US dollars, which is a 10% increase over the previous fiscal year's total. India moved up one spot to eighth place on the list of the world's biggest foreign direct investment recipients in the World Investment Report 2022, moving up from ninth place in 2019. The largest recipients of foreign direct investment (FDI) in FY22 were the information and technology, telecommunication, and automobile industries. Multinational corporations (MNCs) have pursued strategic collaborations with the most prominent business groupings in their home countries, which has contributed to a rise in cross-border mergers and acquisitions of 83% to a total value of US$ 27 billion. These strategic partnerships were made possible by substantial transactions in the technology and health care industries.

Concept of FDI

The term "Foreign Direct Investment" (FDI) refers to the investment that is made by individuals, businesses, or other entities from one country (the home country) into another country (the host country) with the goal of creating a long-lasting interest and control in the business or activities of the host country. FDI refers to investments made with the intention of acquiring a direct ownership stake in a foreign business. This can be accomplished in a number of ways, including the purchase of shares in an already-established business, the launch of a new subsidiary or branch, or the establishing of a joint venture with a local partner. Foreign direct investment (FDI) is recognized as a vital factor contributing to the process of economic globalization and plays an essential part in fostering economic growth and development.

Review Literature

Gogodze (2016) conducted research on the relationships between the various components of a national innovation system as assessed by the GII. They discovered that effective management of institutional capital is a crucial factor in

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determining the level of success that an innovation achieves in a country that does not have a high income. In a similar manner, (Suzuki et.al.,2019) conducted research on the relationship between the administrative features of national governments and innovation. They discovered that countries with higher levels of professional and impartial public administration can offer better levels of knowledge and technology outputs. In addition, (Kawabata et.al., 2020) investigated the connection between the quality of national institutions and the rate of domestic innovation. They discovered that the quality of the local regulatory framework and the efficiency of the public administration have a substantial impact on the rate at which innovation is assessed by FDI.

The topic of research on the relationship between innovation and economic growth is vast. Research and development (R&D) and productivity (Tsai et.al., 2004), (Zhang et al., 2012) and innovation (Cassiman et al., 2010) are two examples of positive relationships between economic and innovation-related dimensions at the firm level. Positive associations between economic and innovation-related variables at the national level have been the subject of other publications. The positive correlation between national economic growth and innovation has been the focus of other publications, such as Castellacci and Natera's 2016 work.

However, not all of the earlier studies have found a positive and substantial link between innovation and economic growth. Examples include a study by (Afzal et.al., 2020) that found a significant and inversely proportionate relationship between financial innovation and economic growth in 164 different countries between 1990 and 2017. Similarly, (Mohamed & coworkers, 2021) found that innovation and Egypt's long-term economic growth had a substantial unfavorable correlation. (Freel et.al., 2004) conducted a similar study, looking into how corporate innovation activities influenced the expansion rates of businesses in Northern England and Scotland. They found that new product introductions tend to have the opposite effect of increased sales or productivity in the short run. Similarly, Coad et al. (2021) argued that innovation has a detrimental impact on the economy because of patent monopolies and other monopolistic rights, which reduce competition and drive up prices for consumers while also widening income disparities.

Benavente (2006) came to a similar conclusion, finding that there was no substantial short-run association between the inventive achievements or R&D spending of Chilean enterprises and their productivity. In a similar vein, (Carvalho et.al., 2017) discovered that there is no substantial connection between innovation and the level of productive performance achieved by Brazilian businesses. In a similar vein, Correa (2012) conducted research on the connection between innovation and competitiveness in US businesses and discovered contradictory findings: a favorable association between 1973 and 1982, but none at all between 1983 and 1994. In the same vein, Suzuki (2020) proposed a model in which the relationship between innovation and competition can either take the form of an upside-down U or be a negative one. Additionally, he demonstrated that a robust protection of intellectual property does not inevitably lead to an increase in national creativity. The importance of scientific and technical activities to long-term economic growth was also confirmed by Ma et al. (2022), who also emphasized the need for countries to work together to boost their scientific potential, integrate new knowledge into creative endeavors, and improve the standard of living for their citizens. The authors also stressed the importance of countries working together to advance and improve their scientific capacity.

According to the findings of a study conducted by (Khalatur et al., 2019) on 39 European nations, FDI net inflows as well as domestic loans have a direct influence on the national GII. Similarly, Yang et al. (2020) discovered that external FDI had a beneficial impact on green innovation for both developing economies and nations that have already grown. In a similar vein, (Smith et.al., 2017) found that foreign direct investment (FDI) and innovation in Russia have a substantial positive link. In a similar vein, Ascani et al. (2020) investigated the connection between foreign direct investment (FDI) and innovation in Italian provinces. They discovered a positive association between the two factors in certain categories of FDI, but a negative relationship in other types of FDI. Accordingly, Girma et al. (2009) discovered a positive correlation between inbound foreign direct investment at the business level and inventive activity, while they discovered a negative association with inward foreign direct investment at the sector level. In a similar manner, (Tang et.al., 2021) discovered that regions are able to keep foreign direct investment (FDI) thanks to the availability of regional technical supply and the flexibility of intellectual property laws. Similarly, (Huan et.al, 2022) discovered a positive and statistically significant association between innovation, which they classified into the categories of “technological, financial, and environmental, and FDI inflows”. This suggests that encouraging innovation can enhance FDI inflows both in the short term and in the long term.

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In addition, Ali (2017) discovered that foreign direct investment (FDI) has a detrimental influence on related variety in export diversification, while having no significant link with overall variety or unrelated variety. This could have repercussions for innovation in industries that are closely related to FDI. China's external FDI has been studied and found to promote regional capabilities of sustained innovation and to be mediated by regional human capital accumulation (Ye & Zhao, 2023). Foreign direct investment (FDI) promotes technical innovation via technology trades, as found by Zeng et al. (2021).

Research Methodology

Secondary data, such as publications pertaining to foreign direct investment (FDI) from sources such as newspapers, journals, textbooks, and the internet, were used to compile the information for the research study. This research work is in the context of India. All necessary references have cited as data taken from different online sources.

Objectives of the study

- To study concept & background of foreign direct investment (FDI)
- To study the benefits& flow of FDI in Indian economy.
- To identify role of FDI accelerating economy of Indian economic growth & innovation in financial sector
- Findings &Conclusion

Benefits of Foreign Direct Investment (FDI)

When viewed in retrospect, Foreign Direct Investment (FDI) was clearly something that was successful. In spite of the epidemic, foreign direct investment (FDI) has seen a roughly 19% growth in comparison to the previous year. India received a record amount of foreign direct investment (FDI) in the fiscal year 2020-21, according to the most recent data on FDI provided by the Ministry of Commerce. This figure is an increase over the previous year's total of $74.39 billion in 2019-20.

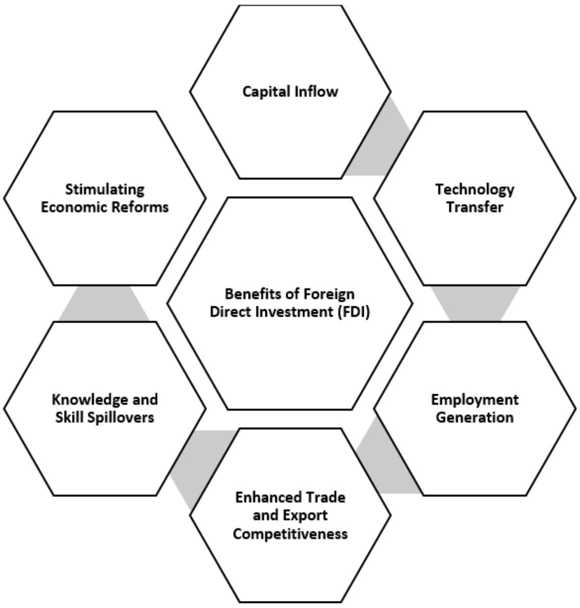

Figure 1: Benefits of Foreign Direct Investment (FDI)

It brings several benefits to both the home and host countries:

1. **Capital Inflow:**Foreign direct investment (FDI) brings large capital from overseas sources, which assists the host nation in filling the investment gap that exists there. This capital might be put to use in the construction of

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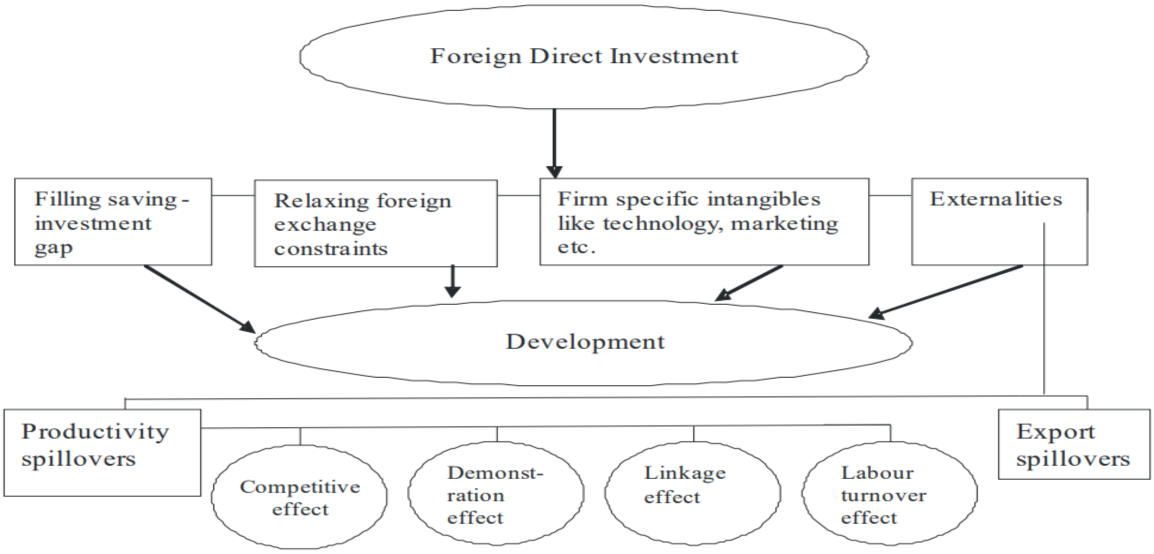
infrastructure, the acquisition of new technologies, the expansion of producing capacity, and various other investment projects, all of which would lead to economic expansion.

2. **Technology Transfer:**Foreign direct investment frequently entails the transfer of cutting-edge technology, technical know-how, and management knowledge from the investor's home nation to the country that will benefit from the investment. This transfer of technology helps the host country increase its innovation capacity and overall productivity, which in turn leads to the growth of the host country's industrial sector.
3. **Employment Generation:**Inflows of foreign direct investment (FDI) encourage the creation of jobs in the country that receives them. The hiring of local workers by foreign investors when they establish or expand their operations leads to a rise in employment possibilities, a reduction in unemployment rates, and an improvement in the local population's standard of living. Foreign investors.
4. **Enhanced Trade and Export Competitiveness:**Foreign direct investment has the potential to improve the economic climate of a host nation through driving exports. In order to take advantage of lower costs or to get access to local markets, foreign investors frequently construct production facilities in the country that is hosting them. This expansion of industries that are geared toward export contributes to higher earnings in foreign currency as well as increased trade competitiveness.
5. **Knowledge and Skill Spillovers:**Foreign direct investment (FDI) can make it easier for domestic companies and workers in the host country to gain new knowledge and expertise. Domestic businesses have the ability to acquire access to new management techniques, technologies, and market information by participating in collaborative efforts, joint ventures, and supply chain linkages, all of which help to support learning and capacity building.
6. **Stimulating Economic Reforms:**Foreign direct investment has the potential to act as a driving force behind economic change in the nation that receives it. Countries frequently alter their policies, liberalize their regulatory frameworks, and make other improvements to their business environments in order to both attract and keep international investment. These reforms have the potential to have a wider range of positive effects on the overall business climate, as well as to boost domestic investment and entrepreneurial activity.

The implementation of investment-friendly policies, the maintenance of legal and regulatory frameworks, the provision of incentives and infrastructure, and the promotion of stable and transparent business environments are all critical roles that governments play in luring and facilitating foreign direct investment (FDI).



[1]

Figure 2: Linkages between FDI and Development

[1] https://www.researchgate.net/publication/24111289_Foreign_Direct_Investment_and_Economic_Growth_The_Role_of_Domestic_Financial_Sector/link/551bc1830cf20d5fbde20b62/download

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Role of FDI in Indian growth

The term "Foreign Direct Investment" refers to when a person or company from another country makes an investment in a country located outside of their home country. The Foreign Exchange Management Act (FEMA) 2000 is the legislation that regulates India's foreign direct investment policy (RBI), and it is supervised by the Reserve Bank of India (RBI).

The amount of foreign direct investment (FDI) received by a country is essential to its economic growth. India has been able to enhance its infrastructure, increase its production, and expand its employment rate thanks to the influx of capital from other countries. Foreign direct investment (FDI) can also act as a channel for the acquisition of advanced technologies and the mobilization of foreign exchange reserves. In addition, the country's foreign exchange reserves make it possible for the Reserve Bank of India (RBI), which is India's central banking institution, to intervene in the foreign exchange market. This allows the RBI to limit any negative movement and maintain stable foreign exchange prices. As a result, it produces a more favorable economic atmosphere for India's economic development.

Innovation in the Financial Sector and FDI's Contribution to Economic Growth

The key mechanisms through which FDI contributes to innovation in India's financial sector are as follows:

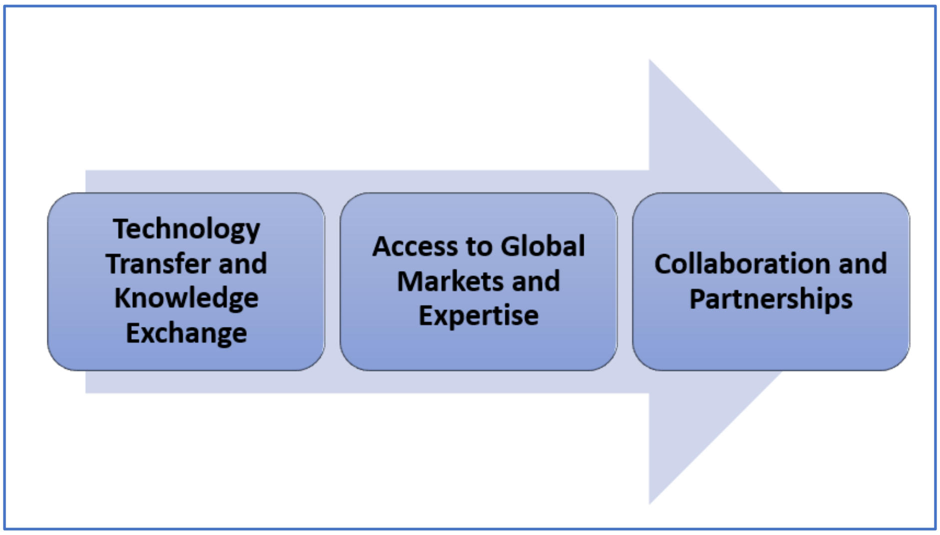

Figure 3: Key Drivers for Innovation in the Financial Sector and FDI's Contribution to Economic Growth

- The influx of foreign direct investment (FDI) paves the way for the exchange of technological know-how and managerial best practices between domestic financial institutions and their international counterparts. This transfer improves the technological capabilities and operational efficiency of domestic companies, which in turn promotes the dissemination of innovation throughout India's financial sector.
- Foreign direct investment (FDI) grants Indian financial institutions access to international networks and expertise, as well as global markets. Because of this exposure, they are able to gain knowledge from the best practices that are used around the world, implement creative tactics, and develop new financial goods and services that are in line with international standards.
- International direct investment (FDI) encourages collaboration and partnership arrangements between Indian financial institutions and international investors. These types of partnerships frequently entail collaborative efforts in areas such as research and development, knowledge-sharing platforms, and joint investment ventures. These sorts of partnerships encourage creativity and the sharing of ideas and specialized knowledge among the participants.

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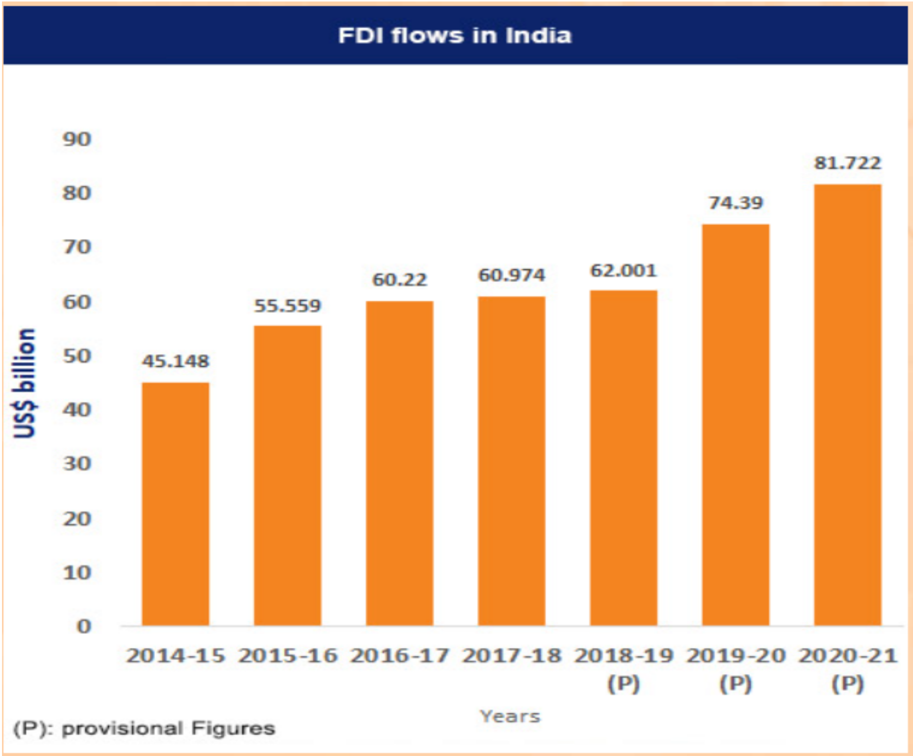
The impacts of FDI-induced innovation in India's financial sector extend beyond the sector itself and contribute to broader economic growth.

These impacts include:

- **Increased Financial Inclusion:** The introduction of new ideas made possible by foreign direct investment (FDI) has helped India achieve greater financial inclusion. Access to financial services has increased, particularly for communities that are not being adequately served as a result of the proliferation of digital payment systems, mobile banking, and creative lending platforms. increasing economic activity and inclusive development are both supported by this increasing financial inclusion.
- **Increased Efficient and Effective:** Financial Intermediation As a result of innovation in India's financial industry, there has been an increase in the level of financial efficiency and effectiveness. Facilitating capital allocation and investment, which in turn supports economic growth, have been improvements that were inspired by foreign direct investment (FDI). These innovations have lowered transaction costs, streamlined processes, and improved risk management.
- **Job Creation and Skill Development:** Innovation in the financial industry that was driven by FDI has resulted in the creation of new employment possibilities, notably in highly skilled roles related to technological and financial knowledge. Inflows of Foreign Direct Investment (FDI) have, in addition, forced the development of a competent workforce, which has resulted in the expansion of human capital and the acquisition of specialized skills.

Data- FDI flows in India

The amount of foreign direct investment (FDI) that India received rose by a factor of 20 between the years 2000 and 2021. The Department for the Promotion of Industry and Internal Trade (DPIIT) reported that India's cumulative foreign direct investment (FDI) inflow was at US$ 871.01 billion between April 2000 and June 2022. This was mostly owing to the efforts of the government to improve the ease of doing business and loosen FDI restrictions.



[2]**Figure 4: FDI Flows in India**

[2]https://www.ibef.org/economy/foreign-direct-investment

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Between the months of January and March 2022, India received a total of US$ 22.03 billion in foreign direct investment (FDI), while the country received US$ 15.59 billion in FDI equity during the same time period. The computer software and hardware industry in India attracted the biggest FDI equity inflow during the period of April 2021 to March 2022, totaling to US$ 14.46 billion. This was followed by the automobile industry, which attracted US$ 6.99 billion, trading, which attracted US$ 4.53 billion, and construction activities, which attracted US$ 3.37 billion. The United States of America (US$ 10.54 billion), Mauritius (US$ 9.39 billion), and the Netherlands (US$ 4.62 billion) were the countries that had the largest FDI flows into India, followed by Singapore, which contributed US$ 15.87 billion. During this time period, the state of Karnataka was the recipient of the most amount of foreign direct investment (FDI), which was US$ 22.07 billion. This was followed by Maharashtra, which received US$ 15.43 billion, Delhi, which received US$ 8.18 billion, Gujarat, which received US$ 2.70 billion, and Haryana, which received US$ 2.79 billion. In the year 2022 (up until August 2022), India received 811 proposals for industrial investments with a total value of Rs. 352,697 crores, which is equivalent to $42.780 billion USD.

Investments/Developments

In recent years, as a result of a variety of factors that have contributed to an increase in FDI, India has evolved into a desirable location for foreign direct investment (FDI). The Global Competitive Index placed India at the 68th spot; the country's economy shown remarkable resilience while the pandemic was going on. In the ranking of the top 50 countries for innovation, India was ranked as the 48th most innovative nation. These aspects have contributed to a rise in foreign direct investment (FDI) in India.

Some of the recent investments are as follows:

- From April-June 2022, India's Computer Software & Hardware industry received and FDI investments of US$ 3,427 million.
- In May 2022, India received FDI investments of Rs. 494 crore (US$ 61.91 million) in the defence manufacturing sector.
- In May 2022, Italian financial services major Generali completed the acquisition of a 25% stake in Future Generali India Insurance from Future Enterprises for Rs. 1,252.96 crore (US$ 161.92 million).
- In May 2022, GenWorks Health secured a second round of funding worth Rs. 135 crore (US$ 17.44 million) from a consortium of investors, including Somerset Indus Capital Partners, Morgan Stanley, through its funding arm Grand Vista, Evolvence and Wipro GE.
- In May 2022, Toplyne, a Software-as-a-Service (SaaS) start-up, raised US$ 15 million in a funding round led by Tiger Global and Sequoia Capital India.
- In May 2022, Kiranakart Technologies Pvt. Ltd, which runs the 10-minute grocery delivery platform Zepto, raised US$ 200 million in a Series D funding round led by Y Combinator's Continuity Fund, which valued it at US$ 900 million.
- In May 2022, KoinBasket, a thematic crypto investment star-tup, raised US$ 2 million in a pre-seed funding round.
- In May 2022, Invictus Insurance Broking Services Pvt. Ltd, which runs insurtech platform Turtlemint Insurance Services Pvt. Ltd, raised US$ 120 million in a Series E funding round led by Amansa Capital, Jungle Ventures and Nexus Venture Partners.
- In May 2022, Jaipur-based online furniture and home decor platform Woodenstreet.com raised around US$ 30 million in a Series B funding round led by WestBridge Capital.
- In May 2022, B2B cross-border tech platform Geniemode received US$ 28 million in a Series B funding round led by Tiger Global and Info Edge Ventures.
- In January 2022, Google announced a US$ 1 billion investment in Indian telecom Bharti Airtel, which includes an equity investment of US$ 700 million for a 1.28% stake in the company, and US$ 300 million for a potential future investment in areas such as smartphone access, networks and the cloud.
- In 2021, India received R&D investments of Rs. 343.64 million (US$ 4.35 million); this was 516% higher compared to the previous calendar year.
- Canada's pension fund investment board invested Rs. 1,200 crore (US$ 160.49 million) as an anchor investor in the IPO of multiple Indian companies: One97 Communications (Paytm), Zomato, FSN E-Commerce Ventures (Nykaa) and PB Fintech.
- The FDI in India's renewable energy sector stood at US$ 1.03 billion for the first half of FY2021-22.

[3]**Figure 5: Recent FDI investments in India**

FDI Policy in Indian Financial Sector

The Indian federal government has raised the maximum for foreign direct investment in Indian private sector banks to 49 percent, which has led to the opening of the country's banking sector to investors from outside the country.

[3]https://www.ibef.org/economy/foreign-direct-investment

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However, the cap on foreign direct investment (FDI) in the country's public sector banks has not budged from its previous level of 20 percent. The so-called "automatic routes" allow international financial institutions that already have a physical presence in India to purchase equity in companies at a rate of up to 49 percent. It is important to note that under the "automatic route," fresh shares would not be offered to foreign investors who already have financial or technical partnership in the banking or allied sector. This is because the "automatic route" prohibits the issuance of fresh shares. They would need to get permission from the FIPB. However, certain statutory clearances from the Reserve Bank of India (also known as the RBI), which is the country's major banking regulator, would be necessary.

Table 1: FDI Policy in Indian Financial Sector

Sector/Activity	% of Equity/ FDI Cap	Entry Route	Other Conditions
Banking- Public Sector subject to Banking Companies (Acquisition & Transfer of Undertakings) Acts 1970/80.	20%	Government	This ceiling (20%) is also applicable to the State Bank of India and its associate Banks.
Banking- Private Sector	74%	Automatic up to 49% Government route beyond 49% and up to 74%	(1) This 74% limit will include investment under the Portfolio Investment Scheme (PIS) by FIIs/FPIs, NRIs and shares acquired prior to September 16, 2003 by erstwhile OCBs, and continue to include IPOs, Private placements, GDR/ADRs and acquisition of shares from existing shareholders. (2) The aggregate foreign investment in a private bank from all sources will be allowed up to a maximum of 74 per cent of the paid up capital of the Bank. At all times, at least 26 per cent of the paid up capital will have to be held by residents, except in regard to a wholly-owned subsidiary of a foreign bank. (3) The stipulations as above will be applicable to all investments in existing private sector banks also.
			(4) Other conditions in respect of permissible limits under portfolio investment schemes through stock exchanges for FIIs/FPIs and NRIs, setting -up of a subsidiary by foreign banks and limits in respect of voting rights are at Annexure-9.

Source: Consolidated FDI Policy Circular 2017, DIPP (www.dipp.nic.in)

Voting Rights of Foreign Investors

Private Sector Banks	:	**Not more then 10 percent** of the total voting rights of all the shareholders
Nationalized Banks	:	**Not more than 1 percent** of the total voting rights of all the shareholders of the nationalized bank.
State Bank of India	:	**Not more than 10 percent** of the issued capital. This does not apply to Reserve Bank of India (RBI) as a shareholder. However, government in consultation with RBI, ceiling for foreign investors can be raised.
SBI Associates	:	**Not more than 1 percent.** This ceiling will not be applied to State Bank of India. If any person holds more than 200 shares, he/she will not be registered as a shareholder.

Key highlights of innovations in Indian financial sector through FDI

Foreign Direct Investment (FDI), the process through which cash, technology, and knowledge are brought into a country from another country, has had a substantial impact on India's financial sector innovation. Foreign direct investment has been a significant contributor to the acceleration of innovation and the transformation of India's financial landscape.

The following is a list of some of the ways that foreign direct investment has led to innovation in the financial sector:

1. **Technology and Infrastructure Development:**Foreign direct investment has made it easier for India's financial sector to adopt cutting-edge technologies and build up its infrastructure. Because of the technological know-how and best practices that are brought in by foreign investors, the creation of "cutting-edge payment systems, online banking platforms, mobile banking applications, and other forms of cutting-edge financial services" has been made possible. Individuals and companies alike have seen improvements in terms of productivity, ease of access, and convenience as a result of technology breakthroughs.
2. **FinTech and Digital Transformation:**Foreign direct investment has been crucial in driving the development of financial technology (FinTech) in India. Innovative solutions, such as "digital wallets, peer-to-peer lending platforms, robo-advisory services, and blockchain applications", have been offered by FinTech companies that have received financial backing from investors based in other countries. These advances have caused traditional banking models to become obsolete and have increased financial inclusion by making previously underserved communities eligible for more easily available and reasonably priced financial services.
3. **Knowledge Transfer and Skill Development:**Foreign direct investment in the financial sector has facilitated the transfer of knowledge and the development of skills. Expertise, industry know-how, and managerial practices are brought into the country by foreign investors, and these are shared with domestic financial institutions. This information transfer contributes to the development of local competencies, the improvement of operational efficiency, and the cultivation of an innovative culture within the Indian financial sector.
4. **Enhanced Risk Management:**The Indian banking sector has become more progressive in its risk management techniques as a direct result of foreign direct investment (FDI). The presence of risk assessment methodologies, compliance frameworks, and risk mitigation strategies brought in by foreign investors contributes to the enhancement of the risk management systems utilized by domestic financial institutions. Because of this, risk assessments, efforts to comply with regulations, and the overall strength of financial systems have all improved.

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5. **Product and Service Innovation:**Foreign direct investment has been a driving force behind product and service innovation in India's financial sector. New financial goods and services that are customized to the requirements of the Indian market have been created thanks to the efforts of foreign investors, many of whom worked in conjunction with Indian financial institutions. This includes the introduction of cutting-edge insurance products, investment opportunities, individualized loan packages, and wealth management services, all of which give customers access to a greater number of available options and drive up market competition.
6. **Market Expansion and Global Integration:**Indian financial institutions have been able to expand their activities abroad and interact with international markets as a result of foreign direct investment. Indian financial institutions are able to learn from global best practices, compare themselves against international norms, and improve their competitive advantage thanks to the access to global networks, markets, and experience that is provided by foreign investors. Because India is now more integrated into the global economy, its financial institutions have been able to take advantage of new business opportunities and grow their customer base.

Findings of the study

- In March of 2021, the government of this country passed a law that will increase the amount of foreign direct investment (FDI) in the insurance sector from 49% to 74%.
- In March of 2021, the Minister of State for Defense, Shripad Naik, disclosed that a total of 44 Indian businesses, including public sector units, have secured FDI approvals for the joint manufacture of defense items with overseas corporations. These businesses are working in conjunction with other countries.
- Research conducted by the Confederation of Indian Industry (CII) and EY indicates that by the year 2025, India is anticipated to receive between US$ 120 and US$ 160 billion in foreign direct investment (FDI). The overall gross domestic product of the nation has expanded by 6.8 percent during the past decade, while foreign direct investment has climbed by 1.8 percent.
- According to the Economic Times, investors ranked India as the third most desirable country in which to make an investment. Eighty percent of investors have stated that they intend to make an investment in India within the next two to three years, and twenty-five percent have reported making investments worth more than five hundred million dollars.

Conclusion

The significance of innovation in India's financial industry, as well as the role that foreign direct investment plays in the expansion of India's economy. The influx of foreign direct investment (FDI) helps expedite the transfer of technology, provides access to global markets and experience, and fosters collaboration, all of which contribute to the acceleration of innovation in India's financial sector. The innovation that emerges as a result contributes to increased financial inclusion, strengthened financial intermediation, job creation, and skill development, all of which contribute to overall economic growth. For the purpose of maximizing the benefits of FDI-induced innovation in India's financial sector, policymakers should continue to stimulate foreign direct investment inflows, establish a regulatory environment that is favourable to innovation, and provide support for the development of a skilled workforce.

Recently, India has emerged as a significant global hub for foreign direct investments (FDIs). India was ranked as one of the top three global locations for foreign direct investment (FDI), and the survey found that around 80% of respondents from around the world intended to invest in India. In addition, India has recently streamlined its labor rules and granted significant tax reductions for businesses in recent years. Additionally, the country has loosened its grip on foreign direct investment (FDI) limitations; over the past 16 years, overall FDI restrictions have decreased from 0.42 to 0.21. In terms of both its near-term and its far-term possibilities, India has continued to be a market that is appealing to international investors. One of the most potential sectors for foreign direct investment is India's low-skill manufacturing sector. Additionally, India has established a highly effective and efficient government. Its improvements in government efficiency are mostly attributable to reasonably stable public finances (despite obstacles imposed by COVID), as well as hopeful feeling among Indian business stakeholders regarding the funding and subsidies supplied by the government to private enterprises. Both of these factors have contributed to the country's recent progress. When taken together, these variables may make it easier for India to attract foreign direct investment (FDI) in the range of 120–160 billion US dollars annually by 2025.

In a Nutshell, Foreign Direct Investment (FDI) has been an essential factor in propelling innovation within India's Financial Sector. It has brought in new technology, expertise, and capital, which has made it possible to build novel financial products, better risk management techniques, and transform financial systems into digital forms. In the Indian financial sector, innovation that was supported by foreign direct investment has helped contribute to financial inclusion, enhanced efficiency, and increased competitiveness, which has eventually supported the growth and development of the Indian economy. Overall, foreign direct investment (FDI) is a crucial engine of economic growth and development since it provides investors with access to new markets, resources, and growth prospects while also delivering capital, technology, employment opportunities, and the transfer of knowledge to the country that is receiving the FDI.

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