FINANCIAL INNOVATION MECHANISMS AND ECONOMIC PROGRESS: A REVIEW OF LITERATURE

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ABSTRACT

This paper provided a comprehensive review of literature on the relationship between financial innovation mechanism and its implication on economic growth in Nigeria. The study examines the factors that have facilitated financial innovation in Nigeria. The paper presents a critical analysis of the literature and identifies gaps that require further research. The findings from the literature reviewed showed that financial innovation mechanisms such as digitalization, number of fintech start-ups, introduction of new financial products, and efficiency of financial innovation have the potential to stimulate economic growth in Nigeria. However, challenges such as poor infrastructure, low levels of financial literacy, and weak regulatory frameworks have limited the impact of financial innovation on economic growth. The study suggests on the need for policymakers to develop a comprehensive strategy that promotes financial innovation, strengthens regulatory frameworks, and improves infrastructure to support the growth of the financial sector and the broader economy in Nigeria.

Keywords: Financial Innovation, economic growth, Mobile Banking, e-payment systems, peerto-peer lending, regulatory frameworks, financial inclusion.

1.0 INTRODUCTION

Financial innovation has been a topic of significant interest in the field of finance and economics. In the research domain, the impact of financial innovation on economic growth has been the subject of extensive research in recent years, with scholars exploring the mechanisms through which financial innovation can promote economic growth and the potential risks and challenges associated with financial innovation as well. Financial innovation is mainly concerned with the creation and development of new financial products, processes, and institutions, which can lead to greater efficiency, productivity, and competitiveness in the financial sector (Hu et al., 2018).

Financial Innovation plays a significant role in driving economic growth in both developed and developing countries over the past few decades. Financial innovation has a connectivity with economic growth in several ways. For instance, financial innovation engenders the development of new financial products that can better meet the needs of consumers and businesses. For example,

the introduction of credit cards, online banking, and mobile payments has made it easier for consumers to access credit and manage their finances, which in turn can lead to increased consumer spending, promotes economic activities and economic growth (Gomber et al., 2018). Similarly, financial innovation has the potential to improve the efficiency of financial intermediation, which can reduce financial market frictions like transaction costs, agency cost, information asymmetry and increase the availability of credit, consequently lead to increased investment, job creation, and economic progress (Levine, 2020). A possible positive side effect of financial innovation is that it can enhance the resilience of the financial system by creating new risk management tools and reducing the likelihood of financial crises in an economy, reduce the probability of economic downturns, thus contributing to long-term economic growth (De Nicolò et al., 2019).

One of the key mechanisms through which financial innovation promotes economic acceleration is increase in access to finance, particularly for small and medium-sized enterprises (SMEs) and other underserved populations. Financial innovations such as mobile banking and peer-to-peer lending have been shown to increase access to credit and other financial services, which can help to spur entrepreneurship, job creation, and overall economic growth (Acharya et al., 2016). A good potential mechanism through which financial innovation can promote economic growth is by improving the efficiency and stability of financial markets. For example, the development of new risk management tools such as credit default swaps and collateralized debt obligations, no doubt has allowed financial institutions to better manage and transfer risk, which can reduce the likelihood of financial crises and promote long-term economic growth (Claessens et al., 2018).

The most effective fundamental channel through which financial innovation can effectively drive economic growth in a country is financial inclusion. Improving financial inclusion by way of enhancing access to financial services and products for underserved populations is crucial for driving financial innovation. This can be achieved through the use of technology and mobile banking solutions. According to the World Bank's Global Findex database (2021), Nigeria has made progress in improving financial inclusion, with the number of adults with a bank account increasing from 30% in 2014 to 40% in 2017.

Moreover, financial inclusion do enhance financial innovation by providing access to financial services to previously underserved populations. For example, the introduction of microfinance has enabled millions of people to access credit and savings services, which has contributed to poverty reduction and economic growth in many developing countries (Beck et al., 2018).

Financial innovation is an instrument to increase the efficiency of financial intermediation. Efficiency of financial intermediation can be achieved by reducing transaction costs, lowering information asymmetries, and improving risk management. This can lead to increased investment, job creation, and economic growth (Rajan, 2015). Financial innovation contributes to economic growth by facilitating technological innovation; and financial innovation helps to finance research and development, and also provide the necessary funding for the commercialization of new technologies. This can lead to increased productivity, competitiveness, and economic growth (Bariviera et al., 2017; Alimi & Olubusoye, 2018).

However, there are also potential risks associated with financial innovation, particularly in the areas of systemic risk and consumer protection. The proliferation of complex financial instruments and the increasing use of algorithms and artificial intelligence in financial markets have raised concerns about the potential for systemic risk and the need for effective regulatory oversight (Haldane, 2019). Additionally, some financial innovations such as payday lending as peculiar to Wema bank and other banks in Nigeria and high-frequency trading have been criticized for their potential to harm consumers and undermine financial stability (Karlsson et al., 2019). Despite these challenges, many scholars remain optimistic about the potential for financial innovation to promote economic growth. For example, Beck et al. (2018) noted that countries with more developed financial systems tend to experience higher rates of economic growth, suggesting that financial innovation can play an important role in promoting economic performance where there is effective and developed financial system. Albeit, the implication of financial innovation in promoting economic progress in developing countries like Nigeria is yet to gain ascendancy on both theoretical and empirical fronts.

Nigeria is the largest economy in Africa, and over the past decade, the country has experienced significant financial innovation. For instance, Nigeria has experienced a significant amount of financial innovation in recent years, particularly in the areas of mobile banking, payment systems, and digital currencies. For example, the Central Bank of Nigeria introduced the Cashless Nigeria Policy in 2012, with the aim to reduce the amount of cash in circulation and promote the use of electronic payment systems. Since then, the use of mobile banking and other digital payment systems has increased significantly, particularly among younger Nigerians (Olorunfemi, 2019). In addition, there has been a growing interest in digital currencies, particularly Bitcoin, among Nigerian investors and consumers (Ali & Adeoye, 2019). All these are further increasing and promoting financial inclusivity, effectiveness of the financial system, market and economic vibrancy in the Nigeria clime.

Again, financial innovation no doubt has some implications for the economy of Nigeria. For instance, financial innovation tends to reduce transaction costs in the Nigerian economy, particularly in the areas of remittances and international trade. Nigeria is one of the largest recipients of remittances in Africa, with over $23 billion received in 2018 (World Bank, 2019). However, the high transaction costs associated with remittances adversely affects the amount of money that is received by the recipient, and therefore limit the impact of remittances on economic growth. Financial innovation, such as the use of blockchain technology and digital currencies, are instruments to reduce transaction costs and increase the amount of money that is received by the recipient (Ali & Adeoye, 2019; Adetiloye et al. 2019). These innovative financial instruments are currently being traded by many young Nigerians and this has induced self-employment and drastically reduce unemployment, social- vices and improve the level of economic activities. In the same vein, the overall implication, particularly in the context of Nigeria and other developing countries, is that financial innovation remained a good instrument in the reduction of transaction costs in international trade, increase exports and promote economic growth.

While financial innovation is important on an economy, there is inadequate comprehensive review on how financial innovation mechanisms like digitalization, number of Fintech start-ups, The introduction of new financial products, and efficiency of financial innovation drive the economic

progress of a developing country like Nigeria. It is this gap in literature the paper tried to fill in literature. Following this, the specific research questions, and objective guiding the study are indicated thus:

1.2 Research Questions

i How does digitalization drive the economic progress of a developing country like Nigeria?
Ii What is the impact of number of Fintech start-ups on the economic progress of a developing country like Nigeria?
iii. Is there a relationship between the introduction of new financial products and the economic progress in Nigeria?
iv. Does the efficiency of financial innovation drive the economic growth of Nigeria?

Objective of the Study

The main objective of the paper is to comprehensively assess the effect of financial innovation on economic progress in a developing country like Nigeria. However, the specific objectives of the paper are to:

i Assess how digitalization drive the economic progress of a developing country like Nigeria; ii. Ascertain the impact of number of Fintech start-ups on the economic progress of a developing country like Nigeria;
iii. Examine the relationship between the introduction of new financial products and the economic progress in Nigeria;
iv. Asees if the efficiency of financial innovation drive the economic growth of Nigeria.

1.0 LITERATURE REVIEW

Financial Innovations

Financial innovation has long been recognized as a catalyst for economic growth. It refers to the development and implementation of new financial products, services, and technologies that aim to improve the efficiency, accessibility, and effectiveness of financial systems. The relationship between financial innovation drive and economic growth is a topic of extensive research and analysis. Financial innovation refers to the development and application of new financial products, services, technologies, and processes in the financial sector. It can include innovations in payment systems, lending practices, investment vehicles, risk management tools, and more. Several measures have been suggested as indicators of financial innovations. Some of these measures include patent application, new financial products, investment in research and development, digitalization, number of Fintech start-ups, innovation efficiency and number of patents filed by non-financial firms. The number of patent applications in the financial industry can be used as a measure of financial innovation (Hu, Zhang, & Yuan, 2018). The introduction of new financial products, such as exchange-traded funds (ETFs), is a good measure of financial innovation

(Gallagher & McGahan, 2017). The amount of investment in R&D in the financial industry can be used as an indicator of financial innovation (Bariviera et al., 2017). The degree of digitalization in the financial industry, such as the use of blockchain technology or mobile payments, can be used as a measure of financial innovation (Gomber et al., 2018). The number of fintech startups, as well as their funding levels, can be used as a measure of financial innovation (Böhme et al., 2019). The efficiency of financial innovation can be measured by comparing the cost and benefits of innovation (Koijen et al., 2018). The number of patents filed by non-financial firms that are related to the financial industry can be used as a measure of financial innovation (Beck et al., 2018).

Digitalization and the Economic Progress of Nigeria

Digitalization has the potential to drive the economic progress of developing countries like Nigeria in numerous ways by promoting economic growth and diversification, creating jobs, enhancing financial inclusion, empowering SMEs, and improving public service delivery. Digitalization can spur economic growth by diversifying Nigeria's economy beyond traditional sectors like oil and agriculture. The World Bank reports that digital technologies can contribute up to $300 billion (over 9% of GDP) to Nigeria's economy by 2025. This growth will be driven by sectors such as e-commerce, fintech, software development, and IT-enabled services.

Digitalization can create employment opportunities, especially for the youth population, thereby foster economic progress in Nigeria. A report by the International Finance Corporation (IFC) estimates that digital technologies can create over 9 million jobs in Nigeria by 2030, particularly in sectors such as e-commerce, digital services, and software development. Digitalization a a key component of financial innovation can significantly and enhance financial inclusion in Nigeria, where a large portion of the population remains unbanked. The Central Bank of Nigeria's National Financial Inclusion Strategy aims to leverage digital technologies to ensure that 95% of Nigerian adults have access to financial services by 2024. Initiatives such as mobile banking, digital payments, and agent banking are playing a crucial role in achieving this goal already these days in the Nigerian clime.

Digitalization is a potent financial innovation tool that can empower SMEs in Nigeria by providing them with new market opportunities and access to technology-driven tools. The Nigeria Digital Economy Diagnostic Report highlights the role of digital platforms in promoting SMEs' growth, connecting them to larger markets, and facilitating access to finance and business support services. Digitalization can also streamline government processes, enhance transparency, and improve service delivery to citizens. The Nigerian government has been implementing digital initiatives such as the National Identity Management System, e-Government Master Plan, and various online platforms to automate processes, reduce corruption, and enhance public sector efficiency.

Number of Fintech Start-ups and Economic Progress in Nigeria

It is important to note that the impact of fintech startups on Nigeria's economic progress may vary depending on various factors such as government regulations, infrastructure development,

cybersecurity, and consumer adoption. However, fintech startups have had a significant impact on the economic progress of Nigeria in recent years. Some of the key areas that fintech startups have had a significant impact on the economic progress of Nigeria are identified as follow:

Financial Inclusion: Fintech startups have played a crucial role in expanding financial inclusion in Nigeria. Traditional banking services were limited to urban areas, leaving a large portion of the population unbanked or underbanked. Fintech companies have leveraged technology to provide financial services to previously underserved individuals and small businesses, facilitating greater access to banking, payments, and other financial products.

Access to Capital: Fintech startups have created new avenues for accessing capital, especially for small and medium-sized enterprises (SMEs). Through innovative solutions like peer-to-peer lending platforms, crowdfunding, and digital wallets, these startups have enabled easier access to credit and investment opportunities for entrepreneurs, thereby stimulating economic growth and entrepreneurship in the country.

Job Creation and Economic Growth: The growth of fintech startups has contributed to job creation in Nigeria. These companies require a skilled workforce in areas such as software development, data analytics, and digital marketing. As fintech startups expand, they create employment opportunities and contribute to overall economic growth.

Increased Efficiency and Transparency: Fintech solutions have improved the efficiency and transparency of financial transactions in Nigeria. Mobile banking, digital payments, and blockchain technology have reduced the reliance on cash transactions and enhanced the speed and security of financial operations. This increased efficiency promotes business growth and fosters trust in the financial system.

Innovation and Competition: Fintech startups have driven innovation in Nigeria's financial sector, forcing traditional banks to adapt and offer more user-friendly digital services. This increased competition has led to improved financial products and services, benefiting consumers and promoting economic development.

Introduction of New Financial Products and Economic Progress in Nigeria

The introduction of new financial products can contribute to economic progress in Nigeria by increasing financial inclusion, expanding access to credit, developing the capital market, managing risks, and leveraging technology-driven efficiency.

Financial Inclusion: New financial products can help increase financial inclusion by providing access to banking and financial services for previously underserved populations. This can empower individuals and small businesses to participate more actively in the economy, leading to increased economic activity and growth. For example, the introduction of mobile banking and digital payment platforms in Nigeria has expanded financial inclusion, allowing people to access financial services through their smartphones, thereby promoting economic progress (Olawale, 2020).

Access to Credit: Innovative financial products can facilitate easier access to credit for individuals and small businesses. This can stimulate entrepreneurship and investment, leading to job creation and economic development. For instance, the introduction of online lending platforms and peer-to-peer lending in Nigeria has increased access to credit for small businesses and individuals who may have been excluded from traditional banking channels (Nwosu, 2021).

Capital Market Development: The introduction of new financial products can contribute to the development of the capital market in Nigeria. For instance, the introduction of Real Estate Investment Trusts (REITs) and Exchange-Traded Funds (ETFs) in recent years has provided new investment opportunities for individuals and institutional investors, leading to increased liquidity and depth in the capital market (Ajide, 2020). This, in turn, attracts domestic and foreign investors, which can boost economic growth.

Risk Management: New financial products, such as insurance and derivatives, can help individuals and businesses manage risks effectively. By providing mechanisms to hedge against unforeseen events, these products can encourage investment, entrepreneurship, and innovation. The introduction of microinsurance products in Nigeria, for example, has helped individuals and small businesses protect themselves against various risks, fostering economic resilience (Mgbame et al., 2019).

Technology-Driven Efficiency: The introduction of new financial products often leverages technology to enhance efficiency in financial transactions and processes. This can reduce costs, improve speed, and enhance transparency, leading to overall economic progress. The adoption of blockchain technology in Nigeria's financial sector, for example, has the potential to streamline processes, reduce fraud, and improve the efficiency of transactions, thereby promoting economic growth (Eze et al., 2020).

Efficiency of Financial Innovation Drive and Economic Growth of Nigeria.

The relationship between financial innovation and economic growth is a complex and dynamic one. Financial innovation refers to the development and implementation of new financial products, services, and technologies that enhance the efficiency and effectiveness of the financial system. In the case of Nigeria, the efficiency of financial innovation can play a crucial role in driving economic growth. However, it is important to note that the specific impact can vary depending on various factors such as the regulatory environment, infrastructure, and overall economic conditions. Efficiency in financial innovation can contribute to Nigeria's economic growth in several ways:

Improved Access to Finance: Financial innovation can help expand access to finance, particularly for underserved populations and small and medium-sized enterprises (SMEs). By introducing new financial products and technologies such as mobile banking, digital payments, and microfinance, financial services can reach a wider segment of the population, leading to increased economic activity and growth.

Enhanced Efficiency and Productivity: Financial innovation can improve the efficiency of financial intermediation and reduce transaction costs. By streamlining processes, automating tasks, and introducing more efficient payment systems, financial institutions can allocate capital more effectively, facilitate investments, and enhance overall productivity.

Increased Financial Stability: Well-designed financial innovations can contribute to the stability of the financial system, which is crucial for sustainable economic growth. For example, innovations in risk management tools, such as credit derivatives and securitization, can help manage and distribute risk more efficiently, reducing the likelihood of financial crises and disruptions to economic activity.

Development of Capital Markets: Financial innovation can promote the development of capital markets by introducing new financial instruments and mechanisms. This can facilitate the mobilization of savings, encourage investment, and provide alternative sources of financing for businesses, leading to increased economic growth and development.

Financial Innovations and the Role of Regulatory Framework in Nigeria

The role of regulatory frameworks in financial innovation towards promoting economic growth in Nigeria cannot be overemphasized. Regulatory frameworks are essential for promoting financial innovation as they provide a conducive environment for innovation while also ensuring that consumer protection and systemic stability are maintained. Adelowokan et al. (2018) posited that regulatory frameworks play a critical role in promoting financial innovation by establishing clear rules and regulations that encourage innovation while mitigating risks. A well-designed regulatory framework provides guidance and support to financial institutions and FinTech companies, enabling them to develop and introduce innovative financial products and services. Regulatory frameworks enhances economic growth by promoting financial inclusion and deepening the financial sector. Financial inclusion is critical for economic growth as it enables more people to access financial services and participate in the economy.

Presence of effective regulatory frameworks helps to promote financial inclusion by removing barriers to entry, encouraging competition, and ensuring that financial services are accessible and affordable to all (Ogbuabor & Odo, 2018). Furthermore, effective regulatory frameworks deepens the financial sector by encouraging the development of new financial products and services that cater to the needs of various segments of the economy. This then assists to promote economic growth by creating new business opportunities, increasing access to finance, and driving innovation (Ezeoha & Udegbunam, 2020). However, it is important to note that regulatory frameworks must strike a balance between promoting innovation and protecting consumers and systemic stability. Overly strict regulations can stifle innovation, while weak regulations can lead to market failures and systemic risks (Ogbuabor & Odo, 2018). Therefore, setting up effective regulatory frameworks in a developing nation like Nigeria requires taking into account the unique characteristics and challenges of the Nigerian financial sector.

Strategies to Influence Financial Innovation on Economic Growth in Nigeria

There are several steps and processes in promoting financial innovations and economic growth in Nigeria. The first step is through encourage financial literacy and education. Financial literacy and education are crucial for promoting financial innovation and economic growth. Nigeria can promote financial literacy and education by investing in programs that educate individuals, businesses, and the general public about the benefits and risks of financial products and services. According to Alimi and Oladeji (2015), financial literacy programs can enhance the adoption of financial innovation and improve the overall financial well-being of individuals.

The second step is to strengthen the regulatory environment. A strong regulatory environment is essential for promoting financial innovation and economic growth. Nigeria can strengthen its regulatory environment by establishing clear and transparent regulations that promote innovation while protecting consumers. According to Beck et al. (2018), well-designed regulatory frameworks can encourage innovation and create a level playing field for all participants in the financial sector.

The third step and procedure towards promoting financial innovation for a favourable impact on the economy of Nigeria is to develop infrastructure. Nigeria can develop the necessary infrastructure to support financial innovation by investing in technology and creating an enabling environment for financial technology (FinTech) companies. This can be achieved by establishing a dedicated regulatory sandbox to test and pilot new financial products and services. According to Gomber et al. (2018), technology and infrastructure are essential for driving financial innovation.

The fourth step to take is to encourage collaboration between stakeholders. Collaboration between stakeholders is crucial for promoting financial innovation and economic growth. Nigeria can encourage collaboration between financial institutions, FinTech companies, regulators, and other stakeholders to create a vibrant and innovative financial ecosystem. In the view of Böhme et al. (2019), collaboration can drive innovation, create new business opportunities, and promote economic growth. The next step is to encourage investment in research and development. Investment in research and development is critical for promoting financial innovation and economic growth. Nigeria can encourage investment in research and development by creating incentives for financial institutions and FinTech companies to invest in innovative products and services. Bariviera et al. (2017) averred that investment in research and development can enhance the efficiency and effectiveness of financial innovation. Fostering a culture of innovation is another step to promote financial innovation on the economy of Nigeria. Fostering a culture of innovation is essential for promoting financial innovation and economic growth. Nigeria can foster a culture of innovation by encouraging creativity and risk-taking, promoting entrepreneurship, and investing in human capital. According to Gallagher and McGahan (2017), a culture of innovation can drive economic growth and create new business opportunities.

Another good step to take in promoting financial innovation on economic growth is to foster collaboration and partnerships. Collaboration between financial institutions, fintech companies, and regulators is essential to promote innovation. Encouraging partnerships can facilitate knowledge sharing, promote the adoption of new technologies, and create an enabling environment

for innovative solutions. The Central Bank of Nigeria (CBN) has been actively promoting collaboration and partnerships through initiatives such as the Regulatory Sandbox Framework, which allows fintech startups to test innovative products in a controlled environment (CBN, 2020).

Implementing supportive regulatory frameworks are important in driving financial innovation on economic growth in Nigeria. Creating a regulatory environment that supports financial innovation while ensuring consumer protection is crucial. Regulations should balance the need for innovation with risk management and regulatory compliance. The CBN introduced the Payment Service Bank (PSB) framework in 2018, which permits non-traditional players such as telecom companies to offer financial services, promoting innovation in the sector (CBN, 2018).

Encouraging fintech ecosystem development is very key in promoting financial inclusion on economic growth in Nigeria. Supporting the growth of the fintech ecosystem through incubators, accelerators, and funding initiatives can nurture innovative startups and provide them with the necessary resources to thrive. In 2021, the Nigerian government launched the Nigerian Fintech Industry Sandbox, which provides fintech startups with a platform to test their innovative solutions, attracting investment and fostering growth in the sector (NITDA, 2021).

Enhancing cybersecurity and consumer protection is another strategy in promoting financial innovation on economic growth in the context of Nigeria. Ensuring the security of financial transactions and protecting consumer rights are vital for building trust in innovative financial solutions. Robust cybersecurity measures and consumer protection regulations must be in place. The Nigerian Data Protection Regulation (NDPR) was introduced in 2019 to safeguard personal data and protect the rights of individuals. This regulation helps build trust in digital financial services and fosters innovation (NITDA, 2019).

By implementing these strategies, Nigeria can foster financial innovation and drive economic growth. It is important to note that these recommendations are based on recent references up until September 2021, and it's always advisable to consult up-to-date sources for the most current information on financial innovation in Nigeria.

Theoretical Framework

This research hinges on theories Schumpeterian growth theory, endogenous growth theory, institutional theory and resource- based theories to examine the nexus between financial innovation and economic progress. According to Schumpeterian growth theory, financial innovation leads to economic growth by promoting technological progress and increasing the rate of productivity growth (Asemota, 2019). This theory posits that financial innovation, such as the introduction of new financial instruments or the development of new financial markets, can increase investment in research and development (R&D) and facilitate the commercialization of new technologies, which in turn leads to higher productivity and economic growth.

Endogenous growth theory suggests that financial innovation can promote economic growth by increasing the availability of credit and reducing the cost of capital (Ibi, 2018). According to this theory, financial innovation can lead to increased investment and entrepreneurship, which in turn

leads to higher productivity and economic growth. Institutional theory posits that the institutional environment, including the legal and regulatory framework, is an important determinant of financial innovation and economic growth (Okodua & Eze, 2019). This theory suggests that a well-functioning financial system with clear property rights, efficient contract enforcement mechanisms, and effective regulation can facilitate financial innovation and lead to economic growth. Resource-based theory suggests that financial innovation can lead to economic growth by enhancing the efficient allocation of resources (Ogunrinola & Adegbite, 2020). This theory posits that financial innovation can help to identify and allocate resources to their most productive uses, thereby increasing efficiency and economic growth.

Empirical Review of Literature

Several studies have explored this relationship and provided insights into the potential impacts of financial innovation on economic growth. Several studies have investigated the relationship between financial innovation and economic growth in both developed and developing countries. While there is no clear consensus on the impact of financial innovation on economic growth, it is clear that financial innovation can have both positive and negative effects, and that appropriate regulation is necessary to ensure that financial innovation contributes to economic growth and stability.

Ross Levine (2004) examined the relationship between financial development, including financial innovation, and economic growth. The authors argue that a well-developed financial system, characterized by efficient financial intermediation and widespread access to financial services, fosters innovation and enhances economic growth. Levine, Loayza, and Beck (2010) found that financial innovation has a significant positive effect on economic growth, particularly in countries with well-developed financial systems. Akinboade and Alimi (2010) examine the relationship between financial innovation and economic growth in African countries. They find that financial innovation, particularly in the form of mobile banking, has a positive impact on economic growth in these countries.Barth, Caprio, and Levine (2013) analyzed the impact of financial innovation on economic growth across a sample of countries and found that the effect is positive and significant, with the most innovative countries experiencing the highest levels of economic growth.

Zoltan (2015) study investigates the relationship between financial innovation and economic growth in the European Union countries. It analyzes the impact of various financial innovation indicators on economic growth and finds evidence of a positive relationship, suggesting that financial innovation contributes to economic growth. Zhang and Li (2016) investigated the relationship between financial innovation and economic growth in China and found a positive and significant relationship between the two variables. Olayinka and Onakoya (2016) found that financial innovation positively impacts economic growth in Nigeria. A study by Demirgüç-Kunt and Levine (2016) found that countries with more developed financial systems, which allow for greater financial innovation, have higher levels of economic growth. They argue that financial innovation can facilitate the flow of capital to productive investments, leading to increased economic activity. Karavias and Koutsomanoli-Filippaki (2016) paper provided an overview of the existing literature on the impact of financial innovation on economic growth. The study synthesizes empirical findings from various studies and discusses the mechanisms through which

financial innovation affects economic growth, including increased capital allocation efficiency and enhanced risk management.

Other studies, however, have highlighted potential risks associated with financial innovation. For instance, financial innovations such as mortgage-backed securities were a contributing factor to the 2008 financial crisis (Acharya, 2017). This highlights the potential negative effects of financial innovation, such as increased systemic risk and financial instability. Additionally, some studies have highlighted the importance of regulation in ensuring that financial innovation does not lead to negative consequences. Du and Li (2017) studied the impact of financial innovation on economic growth in emerging markets and found that financial innovation positively affects economic growth in these countries. Aggarwal et al. (2018) argue that appropriate regulation is necessary to ensure that financial innovation contributes to economic growth, rather than causing instability. Huang et al (2018) study analyzes the impact of financial innovation on economic growth in European countries. The authors find that financial innovation, particularly in the form of new financial instruments, has a positive impact on economic growth in these countries. Alimi and Olubusoye (2018) found that financial innovation positively affects economic growth in Nigeria, and that the effect is more pronounced in the long run..

Zhang and Chen (2019) examined the impact of financial innovation on economic growth in the Asia-Pacific region and found that financial innovation has a positive effect on economic growth in these countries. According to Adetiloye et al. (2019), the introduction of mobile money services has enabled more Nigerians to access financial services. Giannellis and Papadopoulos (2019) empirical study investigates the relationship between financial innovation and economic growth using panel data from European countries. It employs dynamic panel techniques to examine the long-run relationship between financial innovation and economic growth, and finds evidence of a positive and significant impact of financial innovation on economic growth. Chen and Liao (2020) studied the impact of financial innovation on economic growth in China's banking industry and found that financial innovation has a significant positive effect on economic growth.

Chakraborty and Ray (2021) analyzed the impact of financial innovation on economic growth in India and found that financial innovation has a positive and significant effect on economic growth in the country. Wang and Tan (2021) study focuses on the case of China and examines the relationship between financial innovation and economic growth. It employs a dynamic panel data model and finds a positive and significant impact of financial innovation on economic growth in China, highlighting the importance of financial innovation for the country's economic development. Ben Ali and Walid Ben Amar (2022) in a study examines the relationship between financial innovation and economic growth in the context of Islamic finance. The authors find that Islamic finance, particularly in the form of Islamic banking and sukuk, has a positive impact on economic growth in Muslim-majority countries.

CONCLUSION AND RECOMMENDATIONS

The aim of this research paper was to comprehensively assess the implication of financial innovation on economic progress. The analysis of literature, several pertinent findings were observed. The finding showed that the impact of financial innovation on economic growth is a

complex and multifaceted issue, with both potential benefits and risks. While financial innovation can increase access to finance and improve the efficiency of financial markets, it also presents challenges in terms of systemic risk and consumer protection. It was observed in literature that financial innovation can have a positive impact on economic growth by facilitating the development of new financial products, improving the efficiency of financial intermediation, and enhancing the resilience of the financial system. The paper ascertained that financial innovation can contribute to economic growth through several channels, including enhancing financial inclusion, increasing the efficiency of financial intermediation, and facilitating technological innovation. Financial innovation has the potential to significantly impact economic growth in Nigeria, particularly by increasing access to credit for SMEs and reducing transaction costs. However, it is important to note that financial innovation also carries risks, particularly in the areas of cybersecurity and financial stability.

The research paper therefore recommends that policymakers should therefore encourage financial innovation by creating a supportive regulatory environment, promoting competition, and providing funding for research and development. Policymakers and financial regulators in Nigeria must take a balanced approach to financial innovation, promoting innovation while also ensuring that risks are adequately managed. By doing so, Nigeria can leverage financial innovation to promote economic growth and development. Promoting financial innovation and economic growth in Nigeria requires a comprehensive approach that involves financial literacy and education, a strong regulatory environment, infrastructure to support financial innovation, collaboration between stakeholders, investment in research and development, and fostering a culture of innovation. By implementing these steps, Nigeria can create a vibrant and innovative financial ecosystem that promotes economic growth and development. Further research is needed to fully understand the impact of financial innovation on economic growth and to develop effective regulatory frameworks that promote innovation while mitigating potential risks.

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