That the twentieth century, more particularly the last half, has been a remarkable period in innovation is no surprise at all. Indeed, Joseph Schumpeter, the prophet of capitalism, envisioned that capitalism would survive through a continuous process of creative destruction: new products would replace old products, new theory would take over old theories and new process would supplant old processes. Creative destruction occurs when backed by the power of knowledge, technology and entrepreneurship innovations make long-standing arrangements obsolete leading to greater economic efficiency. A common myth associated with 'innovation' is that it relates only to 'technological innovation'. While this may be marginally true, the fact remains that development (and not invention) of products/services/instruments/markets in the field of finance in the last forty years have left students, teachers, practitioners and researchers with lot of food for thought in this area.

Since 1950s and throughout 1990s, the field of finance has been enriched by the theoretical contributions from eminent scholars like Harry Markowitz, Merton Miller, Franco Modigliani, William Sharpe, Myron Scholes, Fischer Black, and Robert Merton, among many others. Compared to those who dominated the traditional world of accounting and finance, these new entrants in the field of finance had quite unusual backgrounds – various types of engineers, physicists, statisticians and even astrophysicists, who infused quantitative rigour at its new height.

This new intellectual discipline was so useful to the society and the community of businessmen and investors that in 1997 when Nobel Prize in Economic Science was conferred on Robert C. Merton and Myron S. Scholes, The Royal Swedish Academy of Sciences in its citation mentioned : "Robert C. Merton and Myron S. Scholes have, in collaboration with the late Fischer Black, developed a pioneering formula for the valuation of stock options. Their methodology has paved the way for economic valuations in many areas. It has also generated new types of financial instruments and facilitated more efficient risk management in society". These financial instruments include swaps, most types of options, caps, floors, collars – collectively known as financial derivatives. Today these financial derivatives are core part of the global capital market. They help the borrowers to achieve lower cost funding, investors to achieve greater rates of returns in a proper mix of risk/reward trade-offs; they help financial and non-financial firms to better manage risks linked to interest rates, currencies, commodities and equities, among others. With globalization and advancement in the field of information technology, financial innovation has now become a permanent and irreversible phenomenon.

The innovations in finance have its share of demerits too. In fact, the global financial meltdown in 2008, which ultimately led to the eventual bankruptcy of some of the leading banks, insurance companies and financial intermediaries around the world sending the banking system into a topsy-turvy, was largely due to these innovative financial instruments. In the light of this experience, financial innovation begs answers to several critical questions such as: how financial innovations can contribute to enhancing the efficiency of the financial system? What is the implication of financial innovation for financial stability? How financial innovation is changing the underlying economies of the banking system?

While the foregoing paragraphs dwell on developments that have primarily taken place in the international arena, there has also been proliferation of innovative financial products in our country in recent times. The Banking industry in India, for instance, has witnessed the evolution of financial innovation with the introduction of the ECS/RTGS/NEFT/ATM which was hitherto unknown, say twenty five years before. 'E-Banking' and 'Core Banking' have now become the buzz words in the Banking Industry. Indian Capital market too has displayed great signs of innovations with some of the companies launching Deep Discount Bonds, Zero Coupon Bonds, secured Premium Notes etc.

In this issue of the magazine, the contributors have left an ineffaceable mark as they present their views on the theme 'Innovations in Finance' which, I am sanguine, our dear readers would find extremely interesting and enriching.

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