

Abstract

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