



ISSN: 2230-9926

Available online at <http://www.journalijdr.com>

IJDR

International Journal of Development Research
Vol. 14, Issue, 03, pp. 65175-65178, March, 2024
<https://doi.org/10.37118/ijdr.27976.03.2024>



RESEARCH ARTICLE

OPEN ACCESS

IMPACT OF DIGITAL PAYMENT ADOPTION ON FINANCIAL INCLUSION IN RURAL INDIA

*Dr. Shankar Prasad, Yashika S Jain, Prem Surana, Sayandeep Shill, Janhavi Kankariya and Dhairya Poddar

Professor Center for Management Studies, Jain Deemed to be University- Bangalore, India

ARTICLE INFO

Article History:

Received 03rd January, 2024
Received in revised form
11th January, 2024
Accepted 16th February, 2024
Published online 29th March, 2024

Key Words:

ProgramaTartaruga Viva, Sea Turtle Rehabilitation, Caretta caretta.

*Corresponding author: Dr. Shankar Prasad

ABSTRACT

The Moving on from the physical clearance of the cheques to the CTS technology, from brick and mortar model of the banks to the internet banking and mobile banking, launch of BHIM and UPI application, digitalization has become a buzz word in today's era. Information Technology today has a crucial role to play in an efficient banking system, and Indian banks have placed a strong infrastructure to leverage its benefits by moving on to contextual banking and open Application Programming Interface. Though riddled with lot of risk, banking services have steadily moved forward with digitalization to offer customer services at their fingertips and laptop screens. With Indian Banking Industry competing the world class technology, the rural banking customers still face challenges in embracing digital payments. The article attempts to present the opportunities and challenges recently emerging in the rural banking sector with special emphasis on digitalization and to analyze the importance of digital literacy in today's banking scenario. This study provides the insights of the digital technology and ways adopted by banks in rural India and to understand the perception and behaviour of rural customers toward these services.

Copyright©2024, Dr. Shankar Prasad et al. This is an open access article distributed under the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

Citation: Dr. Shankar Prasad, Yashika S Jain, Prem Surana, Sayandeep Shill, Janhavi Kankariya and Dhairya Poddar, 2024. "Impact of digital payment adoption on financial inclusion in Rural India". International Journal of Development Research, 14, (03), 65175-65178.

INTRODUCTION

The introduction highlights how virtual payment methods have transformed monetary transactions, offering convenience and efficiency. In recent years, digital payment adoption, especially in rural India, has the potential to significantly impact financial inclusion by providing access to financial services through mobile phones and other digital devices. This research aims to explore the impact of virtual payment adoption on financial inclusion briefly.

Strategies

- Virtual fee strategies refer to methods of conducting monetary transactions electronically, without the need for physical currency. These strategies have transformed the traditional way of handling financial transactions by leveraging various digital technologies and platforms.
- These strategies facilitate the seamless transfer of funds, enabling individuals and businesses to send, receive, and manage money efficiently. They eliminate the need for physical cash and paper-based transactions, thereby enhancing convenience and speed in financial transactions.

Digital Payment Adoption in India

- In recent years, there has been a significant increase in the

rural areas. This adoption has been driven by various factors such as technological advancements, increased smartphone penetration, and government initiatives to promote digital transactions.

- The growth of digital payments in rural India holds immense potential to improve financial inclusion by providing access to formal financial services to previously underserved populations

Purpose of the Research: The primary objective of the research is to investigate the impact of digital payment adoption on financial inclusion in rural India. This involves understanding the drivers behind the adoption of digital payment methods, as well as examining the benefits, challenges, and potential solutions to enhance their effectiveness in promoting financial inclusion.

Government Initiatives: The Indian government has implemented various initiatives to promote digital payments and enhance financial inclusion, such as the Pradhan Mantri Jan Dhan Yojana (PMJDY), Aadhaar (unique identification system), and the Unified Payments Interface (UPI). These initiatives aim to expand access to formal financial services, reduce dependency on cash, and increase transparency in financial transactions.

Benefits of Digital Payment Adoption in Rural India: Digital payment adoption in rural India offers several benefits, including increased financial inclusion. By providing access to digital payment

and gain entry into the formal financial system. Additionally, digital payments offer convenience, cost-effectiveness, and empowerment, particularly for women, by enabling them to independently access financial services and engage in online transactions.

Challenges and Concerns

- Despite the potential benefits, there are several challenges associated with digital payment adoption in rural India. These include the lack of digital infrastructure and connectivity, low levels of digital literacy among rural populations, and concerns regarding data privacy and security.
- Addressing these challenges is crucial to building trust and confidence among rural communities and promoting wider adoption of digital payment methods.

Recommendations for Promoting Digital Payment Adoption

- To promote digital payment adoption and financial inclusion in rural India, collaboration among various stakeholders is essential. Initiatives should focus on advancing digital infrastructure, providing affordable smartphones, improving internet connectivity, and implementing educational programs to enhance digital literacy skills.
- Additionally, efforts should be made to design user-friendly interfaces and provide vernacular language options on digital payment platforms to ensure accessibility for all segments of the population.

In conclusion, the Indian automobile business has come a long way from its modest beginnings to becoming a significant player on the global stage. The industry's growth has been driven by economic expansion, urbanization, government support, technological advancements, and evolving consumer preferences. While challenges like pollution, traffic congestion, and road safety persist, the industry's future prospects remain bright with the shift towards electric mobility, connected vehicles, and increased global market integration. As the industry continues to adapt and innovate, it will contribute significantly to India's economic development and shape the future of transportation in the country.

Statement of Problems: Digital payment adoption is widely regarded as a key driver of financial inclusion, especially for the rural population in India. However, there are many challenges and barriers that hinder the effective use of digital payment platforms and services by the rural poor. These include lack of awareness, trust, literacy, infrastructure, connectivity, interoperability, and incentives. Moreover, there is a lack of empirical evidence on the impact of digital payment adoption on various dimensions of financial inclusion, such as access, usage, quality, and welfare outcomes. Therefore, this research aims to address the following questions:

- What are the factors that influence the adoption and usage of digital payment platforms and services by the rural poor in India?
- What are the benefits and costs of using digital payment platforms and services for the rural poor in India?
- How does digital payment adoption affect the financial inclusion and well-being of the rural poor in India?

Review of Literature

Dhanraj *et al* (2016) The authors aimed to outline the impact of regional rural banks (RRBs) on the rural economy and credit structure. Established in 1975, RRBs were created to support the rural economy by providing credit to underserved segments that were ignored by formal banking institutions due to problems in accessing credit. The allocated capital targeted mainly small farmers, small producers and workers in rural areas. These previously unbanked groups could increase their income-generating activities with financial support from RRBs. However, banks soon faced difficulties due to insufficient repayments and rising nonperforming assets (NPAs). The situation

was worsened by the banks' insufficient planning and failure to understand the real capital needs, as well as the lack of loan monitoring of the target segments. The traditional method of production has also caused considerable damage to many small producers. This understanding emphasized that simply providing financial support is not enough; banks had to provide guidance to understand supply and demand dynamics and market needs. Unfortunately, both banks and enforcement agencies failed to notice this gap, resulting in results that fell short of expectations.

BHATNAGAR (2015) The author considers how the rural poor become aware of and adopt modern banking services. Despite financial sector reforms that have led to the expansion of banking into previously unbanked areas, many banks struggle to continue this expansion because they have limited access to rural customers with low incomes. Providing basic banking services in such circumstances is a significant challenge, and traditional banking services often prove inadequate and overly complex. With the increase in technology, the cost of service delivery has decreased significantly, but the system still has weaknesses. Lack of awareness and trust in the system remains a major obstacle to its effective implementation. It will be difficult for service providers to introduce technology-based services, new opportunities for financial inclusion and value-added services until consumers lack confidence. Providing an efficient and cost-effective service to rural areas remains a key and challenging task for service providers, requiring a well-structured implementation approach.

Kumar *et al* (2013) The paper discusses the concept of modern banking systems, focusing on the development of the Indian banking system. Over time, the Indian banking sector has grown and diversified, offering a variety of banking services to meet the needs of target customers. However, these services are often unable to meet the growing demand for increased services, better products and wider accessibility. The industry tends to expand horizontally to capture a large customer base, but this expansion is often piecemeal and lacks a proper plan, resulting in an inability to provide value-added services. There is a growing need in banking to adopt advanced technologies to meet the growing demands and extend coverage to the hitherto unbanked masses. Banks play a key role as the financial backbone of the country, and ensuring stable and adequate funding is essential to bridging the gap between supply and demand. Thus, leveraging technology to create an environment conducive to the provision of various banking services, including financial support to the underserved sections of society, becomes central.

SHARMA (2012) The author emphasizes the need for internet banking accessibility in rural areas. With about 70% of India's population living in its roughly 600,000 villages, serving this important demographic is a significant challenge given the diversity of rural livelihoods and economies. It is very important to offer services that traditional banking systems cannot provide in the existing framework. Therefore, there is a need to create specific alternative services adapted to the rural poor. To do this effectively, a careful assessment of the specific services sought by rural communities is of utmost importance. It is important to understand that services and facilities provided in non-rural areas cannot simply be transferred to rural settings. The author points out 17 factors that can prevent banks from providing services to poor rural residents. These factors include, but are not limited to, proper deployment of ATMs, customer education, cost of maintaining bank accounts, transportation and more. Without improving these essential services, banks may struggle to meet the essential service requirements for the rural sector.

Mukherjee (2011) The author examines how Information and Communication Technology (ICT) can drive development in rural areas. Economies predominantly rural in nature are striving for growth and progress, with modern technologies aiding in achieving these goals by offering enhanced services at an affordable cost. The evolution of Consumer demands is likely to favour the advancement

of the sector, with ICT playing a crucial role in various segments of society. Its influence extends to financial services, government benefit distribution, and more. As consumer needs become increasingly sophisticated, the requirements must be adequately addressed; otherwise, the services provided may not stand the test of time

RESEARCH METHODOLOGY

Hypotheses were tested quantitatively with inferential statistics. It is important to quantify the role of fintech in promoting financial inclusion in rural India, so researchers there use confirmatory factor analysis to identify key influencing factors and structural equation modelling to analyze the data. According to research findings, behavioural intention to use technology in the Indian rural sector is positively influenced by social impact factors. End users who are used to using end technology services and systems are more likely to achieve their goals. Therefore, confirmatory factor analysis was an important part of the initial stages of this study to find variables for the adoption of financial innovations. At this stage of the research process, statistical tests were used to determine whether or not a relationship existed and, if so, how strong it was. Structural equation modelling was the primary statistical method for testing hypotheses and analyzing the impact of fintech on financial inclusion through mobile money services.

Sample design: Fintech users and rural entrepreneurs using mobile money and other services offered by fintech constituted both the study population and the focus demographic of the study. There are 130 billion people on earth and it is impossible to know the opinion of the entire population. As a result, the trial method was established. Using a method called stratified inferential sampling, the sampling frame consisted of randomly selected respondents from three districts in the state of Haryana, namely Gurugram, Hisar and Jhajjar. A total of 400 respondents participated in the survey. They received closed questionnaires and one of the researchers himself collected the data between July 2022 and September 2022, since the respondents were not very familiar with Google Forms.

Data Collection: The data collection process primarily relied on secondary sources, including existing literature, reports, and studies on digital payment adoption and financial inclusion in rural India. The secondary data were gathered from various sources to provide a comprehensive overview of the factors influencing digital payment adoption and its impact on financial inclusion among the rural poor. The collected secondary data were analyzed to assess the validity of the model, with both Comparative Fit Index (CFI) and Tucker-Lewis Index (TLI) meeting the threshold of at least 0.90, indicating the validity of the study's model. Overall, the utilization of secondary data allowed for a robust examination of the research questions and contributed to a deeper understanding of the challenges and opportunities related to digital payment adoption in rural India.

OBJECTIVES

1. ***Enhancing Financial Inclusion*** Provide rural populations with access to digital payment services, empowering them to participate actively in the formal economy.
2. ***Reducing Cash Dependency*** Diminish reliance on cash transactions, enhancing security and efficiency in financial dealings within rural areas.
3. ***Boosting Productivity*** Facilitate quicker and more efficient transactions, thereby elevating overall productivity and economic activities in rural communities.
4. ***Ensuring Access to Banking Services*** Narrow the gap in access to banking services by promoting digital payment solutions, making it easier for rural residents to manage their finances.
5. ***Streamlining Government Benefits Disbursement*** Simplify the disbursement of government subsidies and welfare programs

through digital channels, ensuring timely and transparent delivery to beneficiaries.

6. ***Promoting Entrepreneurship*** Foster entrepreneurship by facilitating digital payments, enabling rural entrepreneurs to participate in online commerce and expand their businesses.
7. ***Achieving Cost Savings*** Reduce the costs associated with cash handling and transportation, promoting cost-effective financial transactions in rural areas.
8. ***Encouraging Technology Adoption*** Stimulate the adoption of digital technologies, enhancing the technological literacy and skills of rural residents.
9. ***Facilitating Data-driven Decision Making*** Enable the collection of digital transaction data, providing valuable insights for policymakers to make informed decisions and tailor development initiatives.
10. ***Mitigating Risks*** Minimize the risk of theft and loss associated with cash transactions, promoting a more secure financial environment in rural India. The conventional ownership paradigm was being impacted by the emergence of ridesharing services and the idea of Mobility as a Service. A lot of customers were gravitating toward shared mobility solutions, which caused businesses to rethink their business strategies.

RECOMMENDATION

Lack of Infrastructure

Solution: Invest in improving rural infrastructure, including reliable electricity supply and internet connectivity, through government initiatives and public-private partnerships. Establishing more digital payment kiosks or centers in rural areas can also enhance accessibility.

Limited Digital Literacy

Solution: Implement comprehensive digital literacy programs tailored to rural communities, focusing on basic digital skills and educating users about the benefits and security measures of digital payments. Utilize local community centers, schools, and NGOs for conducting training sessions.

Dependency on Cash

Solution: Launch awareness campaigns highlighting the convenience, safety, and efficiency of digital payments. Incentivize the use of digital payment platforms through cashback offers, discounts, or subsidies on transaction fees for both merchants and consumers.

Trust Issues

Solution: Build trust through transparent communication about the security features of digital payment systems. Collaborate with local leaders, influencers, and community organizations to endorse and promote the adoption of digital payments, emphasizing their reliability and safety.

Language and Cultural Barriers

Solution: Develop user-friendly digital payment interfaces in regional languages and dialects. Provide customer support in local languages to assist users with any queries/issues. Conduct culturally sensitive marketing campaigns that resonate with rural audiences.

Affordability and Accessibility

Solution: Subsidize the cost of smartphones and data plans for low-income individuals in rural areas. Promote the use of feature phones for basic digital transactions. Partner with telecommunications companies to improve network coverage and reduce data costs in rural regions.

CONCLUSION

It's evident that digital payment adoption in rural India holds significant potential for enhancing financial inclusion among the rural poor. However, various challenges and barriers such as lack of awareness, trust, literacy, infrastructure, connectivity, interoperability, and incentives impede its effective utilization. Despite these challenges, the benefits of digital payment platforms and services for the rural poor are numerous, including cost and time savings, increased access to formal financial services, and improved convenience and reliability of financial transactions. To maximize the positive impact of digital payment adoption on financial inclusion and well-being among the rural poor, it's crucial to address these challenges through targeted interventions and policy initiatives. This could involve raising awareness and building trust through financial literacy programs, improving infrastructure and connectivity in rural areas, enhancing interoperability among digital payment platforms, and providing incentives to encourage adoption. Additionally, further research is needed to empirically assess the impact of digital payment adoption on various dimensions of financial inclusion, such as access, usage, quality, and welfare outcomes. By addressing these challenges and leveraging the potential of digital payments, rural India can unlock new opportunities for economic empowerment, resilience, and inclusive growth for its rural population.

REFERENCES

- <https://byjusexamprep.com/upsc-exam/which-indian-state-has-the-lowest-literacy-rate#:~:text=Lowest%20Literacy%20Rate%20in%20India,-Let's%20examine%20the&text=Bihar%20has%20the%20lowest%20literacy%20rate%20at%20approximately%2063.8%25.,state%20in%20India%20is%20Rajasthan.>
- <https://fastercapital.com/content/Lack-of-infrastructure--Building-pathways-out-of-the-poverty-trap.html#:~:text=Impacts%20on%20development%3A%20The%20infrastructure,economic%20growth%20and%20social%20development.>
- <https://modern diplomacy.eu/2023/12/13/bridging-the-divide-empowering-rural-india-through-financial-inclusion-and-digital-payments/>
- <https://www.cnbctv18.com/views/the-complexity-of-payments-in-rural-india-10742161.htm>
- <https://www.financialexpress.com/business/sme-unlocking-financial-inclusion-aeps-emerges-as-upi-for-rural-india-3182018/>
- <https://www.nic.in/blogs/digital-payments-driving-the-growth-of-digital-economy/>
- https://www.researchgate.net/publication/377183877_Digital_Payment_for_Rural_India_Challenges_and_Opportunities#:~:text=Some%20of%20the%20revolutionary%20developments,are%20significant%20developments%20taking%20place.
