International Journal of Trend in Scientific Research and Development (IJTSRD)
Volume 9 Issue 1, Jan-Feb 2025 Available Online: www.ijtsrd.com e-ISSN: 2456 – 6470

The Impact of Financial Understanding on Implementing Digital Payments on Combating Economic Disparities Between Urban and Rural People

Roli Gupta, Priya

Research Scholar, Faculty of Commerce, Banaras Hindu University, Varanasi, Uttar Pradesh, India

ABSTRACT

In the current era, Digital Payment plays a pivotal role in drastically altering the economic landscape, but their potential gains are not evenly disbursed between urban-rural populations. The current study examines the influence of financial education as a key to the adoption of digital payment in rustic areas and how this adoption will bridge the gap between urban - and rural income disparity. Although there is widespread digital payment all over the economy, there is still evidence of an economic gap between these two populations because of a lack of financial awareness. The ongoing study is descriptive in nature and employs secondary data. The final outcome of the study reflects there is a significant association between financial awareness and the adoption of online payment, thereby eliminating the income disparity between urban-rural populations. Thus, the government should focus on formulating policies and education awareness programs with respect to initiating online payment integration in underprivileged areas.

KEYWORDS: *Financial literacy, Digital Payment, Economic gap, Urban-Rural Area*

How to cite this paper: Roli Gupta | Priya "The Impact of Financial Understanding on Implementing Digital Payments on Combating Economic Disparities Between Urban and Rural People" Published in International Journal of Trend in Scientific Research and Development (ijtsrd), ISSN: 2456-6470, Volume-9 | Issue-1, February 2025, pp.1013-1018, URL: www.ijtsrd.com/papers/ijtsrd76159.pdf

IJTSRD76159

INTRODUCTION

In a growing digitalization period, financial knowledge plays a essential role in disseminating economic inclusion all over the world. With rapid changes in payment systems, digital payment has revamped financial transactions, leading to convenience, efficiency, security, accessibility, etc. Despite offering so many benefits over traditional payment systems, the advantages of using this digitized payment are haphazardly distributed between metropolitan and rural residents. This uneven distribution of benefits of digital payment points out the question: Role of financial knowledge in the adoption of digital payment and mitigating the urban-rural divide. Financial knowledge refers to comprehending the basic principles of budgeting, saving, investing, allocating, etc. In the ongoing era, the importance of financial knowledge can't be neglected; in order to make an informed decision, an individual must possess continuously informed financial knowledge. As a consequence, the individual will not only have financial stability but, on a macro level, yield better economic growth and stability as well.

Digital payment is a method of transferring funds easily without the physical presence of an individual. Unlike traditional payment methods, it offers a broad range of benefits to users. It encompasses various tools like credit cards, debit cards, mobile wallets, peer-to-peer landings, digital currency, etc. It can be undertaken with the help of the internet and platforms like smartphones, computers, tablets, etc. However, there are still masses of regions, especially rural areas, where this technology is not well-furnished due to a number of reasons. First, due to a lack of technology, internet facilities, and technological devices like smartphones, rural people are facing problems (Bernards, 2022; Morgan, 2022; Guo Wu et al.,2024). Second, due to a lack of both financial and trained human resources, rural people face problems in adopting online payment. Third, a lack of financial awareness is also a major problem in the adoption of

cashless payment (Hasan et al., 2021; Guo Wu et.al.,2024). Fourth, rural residents prefer to stick to traditional payment; they resist in adoption of any new technological payment system (Fakir, 2021; He et al., 2019; Guo Wu et al.,2024). So, these are matters of concern which is acting as a barrier to the adoption of digital payment in the rural sector, as a consequence of which creating an economic gap between the urban sector and rural sector. Hence, it is obligatory to provide money management skills in order to enhance their engagement in using fintech products like digital payment.

The current research paper examines the impact of financial knowledge in facilitating rural people to switch to digital payment rather than stick to the traditional one along it also investigates the effect of digital payment in bridging the gap between two sectors of economy, rural and urban.

Further, this paper is fragmented into a Review of literature in Section 2, the Objectives of the survey in Section 3, Research methodology included in Section 4, Section 5 highlights the major findings from the analysis of data, Section 6 deals with the brief conclusion and future scope, Section 7 consists of social implications.

Literature Review:

Multiple independent factors, including the total indices level, coverage breadth, the extent of use, digitization extent, online payment degree, digital risk level, and electronic credit level, have had an important effect on minimizing the digital divide gap, particularly across China's regions, but the influence of digital access is more in the western area of China in contrast to eastern areas. Except for the credit index, the influence of all the variables in reducing the income gap is higher in Western than in Eastern China (Jing Liu et al.,2023). (Maria Yohana Kirana et al.,2020) states that components like financial insight, monetary behaviour, expected worth, and ease of access to contactless payment have a direct effect on economic participation; concurrently, the financial attitude has an insignificant and negative influence on mobile payment. Mobile payment adoption is negatively affected by financial attitude and religion (Dinh Van Son et al.,2023). Diversity of factors affecting consumer behavior in endorsing cashless payment, with financial knowledge being the most preferred determinant for their payment decision (Beata Swiecka et al.,2021). (Mohd Hanafi Azman Ong et al.,2023) highlights in his findings that the direct influence of the UTAUT -2 construct and its extended construct in affecting the aim to employ the digital payment system, among them being social influence, effort expectancy, and epistemic value are the top three constructs. (Guo Wu et al.,2024) the construct of TAM, i.e., Perceived benefit and perceived use with two other extended constructs, financial awareness and innovative awareness, significantly influence their aim to employ fintech at the same moment; perceived usefulness acts as an intervening variable between perceived ease of use and behavioral intention. Industrial economy and government interventions are the two essential components of urban - rural tech-driven financial inclusion, though the magnitude of impact varies, and secondary schooling is the only determinant in rural areas(Guang Liu et al.,2021).(Saif Ullah et al.,2022) illustrate in his finding that financial literacy doesn't directly affect the motive to adopt the m - m-payment, but in contrast, digital literacy does at the same moment if people find it useful and accessible to use their aim to employ mobile payment. Norwegian mobile payment users were less financially vulnerable than non - user and a gender gap was also observed in the adoption of mobile payment; the proportion of women was high in comparison to males (M. M. Naseer Seldal et al.,2022). Digital financial inclusion plays a dominant role in decreasing poverty and fostering stable growth in urban areas in developing countries of China (Peng Peng et al.,2022). (Naishu Yu et al.,2021) a major element of reducing the urban-rural income gap is digital financial inclusion, and the gap in total income can be reduced by reducing the gap in wages, property, and transfer income. A positive correlation is seen between the Urban-rural imbalance and tech-driven financial inclusion; a reduction in the income gap is possible due to digital financial inclusion because of the increasing labour force, which directly leads to an increase in the income of the labour workforce (Yuan Mo et al.,2024).

Research Gap:

To our best knowledge, no previous study has undertaken the impact of digital payment in mitigating urban-rural disparities. This is the novelty of the current research paper.

Objectives:

- To determine the task of financial awareness in inducing people to adopt e-payment.
- To determine the influence of Digital Payment in narrowing the discrepancy between urban-rural residents.

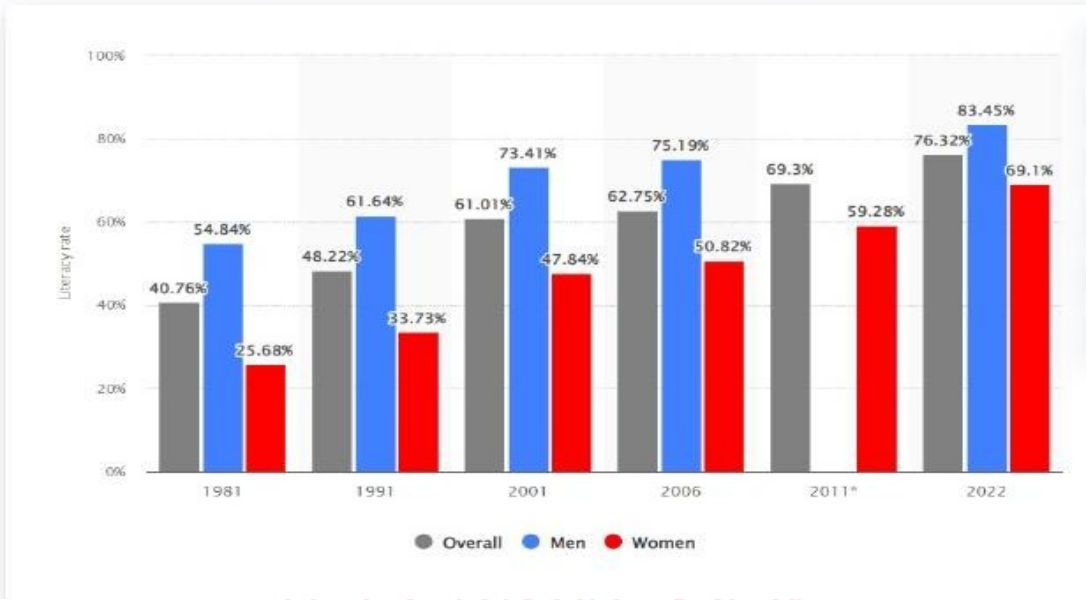
Research Methodology:

The current research paper is characterized by a narrative approach, applying secondary data in the form of published journals, government reports, research papers, newspapers, etc, which has been employed for the interpretation & analysis of the

research findings. The Studying data from 1951 onward enable an assess of the impact of various educational and financial inclusion policies. The study allows comparison of digital payment growth with literacy improvements, helping analyse if lower literacy in earlier decades delayed financial digitalization. Data were retrieved from (The National Sample Survey, Statista, Census, RBI reports, etc.) for the motive of achieving the objective of the study.

Data interpretation & Finding:

Figure 1: Literacy rate from 1981 to 2022 by gender



Source - Statista.com

The above figure 1 bar graph depicts the increasing literacy rate in India from the year 1981 to 2022. This graph provide a historical perspective on how literacy rate have change over four decades in India The aggregate literacy index has boosted from 25.68% to 69.1%. Women's literacy index has also hiked from 25.68%to 69.1%. It provides insight into how increased literacy level over decades have contributed to digital awareness and financial literacy both crucial for digital payment adoption. In the end, it can be summarized that considerable strides have been observed in literacy rate in past years, thereby indirectly leading to an increase in the adoption of fintech-like payment systems.

Table 1: Financial Literacy Index score

Low (<=0.33)	Medium (>=0.34 to <=0.53)	High (>=0.53)
Rural India		
Arunachal Pradesh, Assam, Bihar, Jharkhand, Manipur, Meghalaya, Nagaland, Uttar Pradesh	Andhra Pradesh, Chhattisgarh, Gujarat, Haryana, Jammu & Kashmir, Karnataka, Madhya Pradesh, Maharashtra, Mizoram, Orissa, Punjab, Rajasthan, Sikkim, Tamil Nadu, Telengana, Tripura, Uttaranchal, West Bengal	Chandigarh, Delhi, Goa, Himachal Pradesh, Kerala, Pondicherry

Source - Authors' estimation based on data from NSS 77th round of the All-India Debt and Investment Survey.

Table 1 highlights the financial literacy metrics score (Priyadarshi Dash et al.,2023) calculated by using the formula; the results are that most of the states of rural India have medium and high financial literacy scores that reflect a high level of financial knowledge and awareness. Some states of the northern and the eastern regions have a low score; thereby, it can be summarized that the majority of rural states in India have reported a favorable outcome with respect to financial literacy.

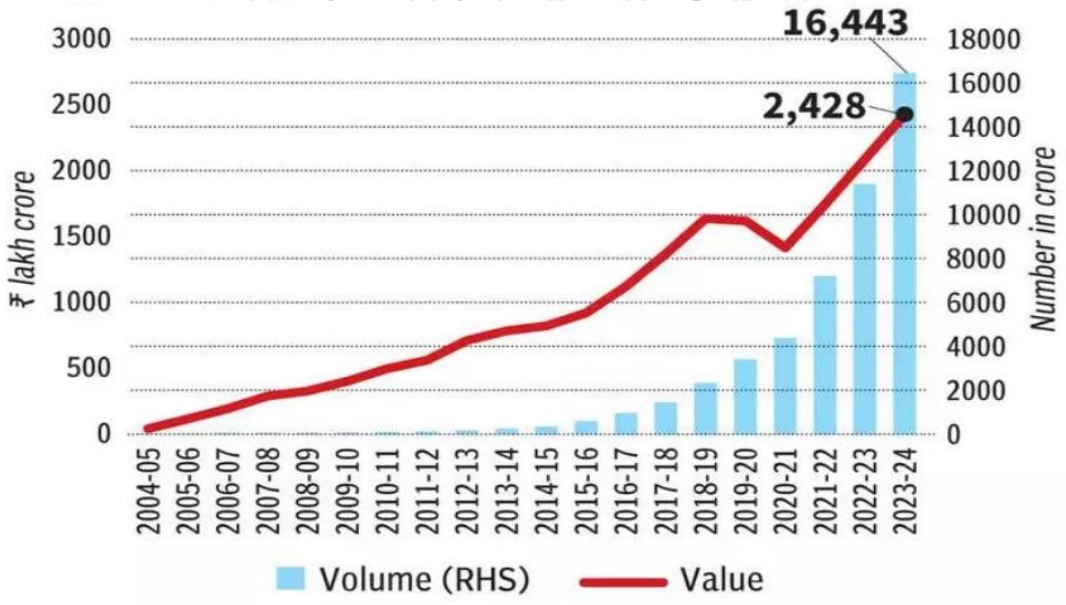
Table 2: Literacy Rates in Post Independent India

Year	Rural			Urban			Combined		
	Female	Male	Total	Female	Male	Total	Female	Male	Total
1951	4.87	19.02	12.1	22.33	45.6	34.59	8.86	27.15	18.32
1961	10.1	34.3	22.5	40.5	66	54.4	15.35	40.4	28.31
1971	15.5	48.6	27.9	48.8	69.8	60.2	21.97	45.96	34.45
1981	21.7	49.6	36	56.3	76.7	67.2	29.76	56.38	43.57
1991	30.17	56.96	36	64.05	81.09	67.2	39.29	64.13	52.21
2001	46.7	71.4	59.4	73.2	86.7	80.3	53.67	75.26	64.83
2011	58.75	78.57	67.8	79.92	89.67	84.1	65.46	82.14	74.04
% Increase in 2011 over 2001	**26%**	**10%**	**14%**	**9%**	**3%**	**5%**	**22%**	**9%**	**14%**

Source: Census of India, Office of Registrar General, India

Table 2 presents a clear picture of the evolution of the education rate in India from 1951 to 2011 in both sectors by gender. In 1951, overall literacy in rural areas was 12.1%, which rose to 67.8% in 2011. The same increase rate has also been noted in the urban sector. Thus, thus it can be concluded that the literacy rate has risen considerably in rural areas in the independent era.

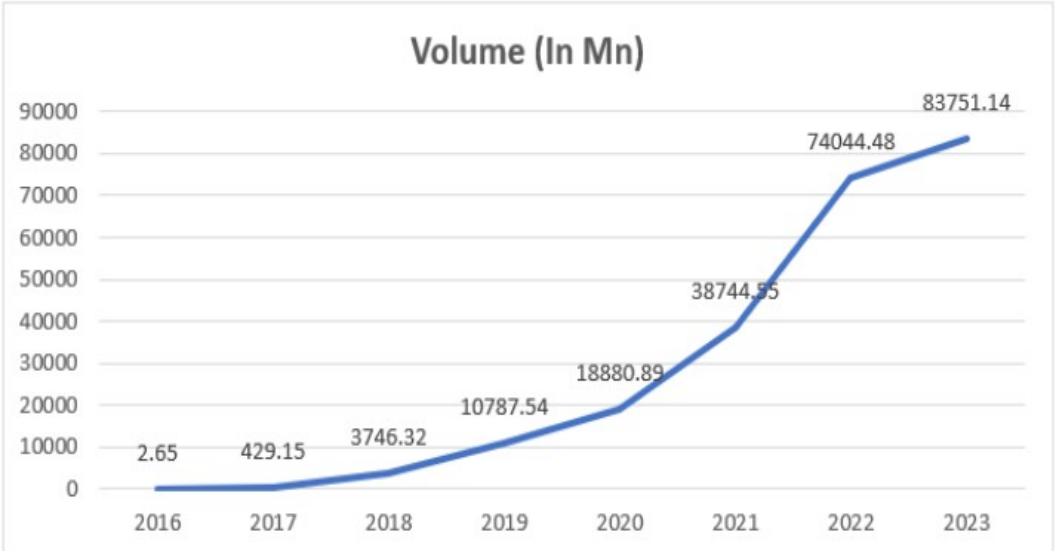
Figure 2: Digital Payment Adoption



Source: RBI; NSO; UN world population prospects; and RBI staff estimates

Figure 2 most striking component is the way the volume and value of online payments have increased dramatically over the past twentieth century. This indicates India is proceeding rapidly toward digital transactions due to the rise in the level of financial education among the people. The graph's second quarter reveals a particularly acute boost in volume and value, especially from FY 2017–18 onward. This is promoting government initiatives like the adoption of electronic payment systems and the demonetization scheme.

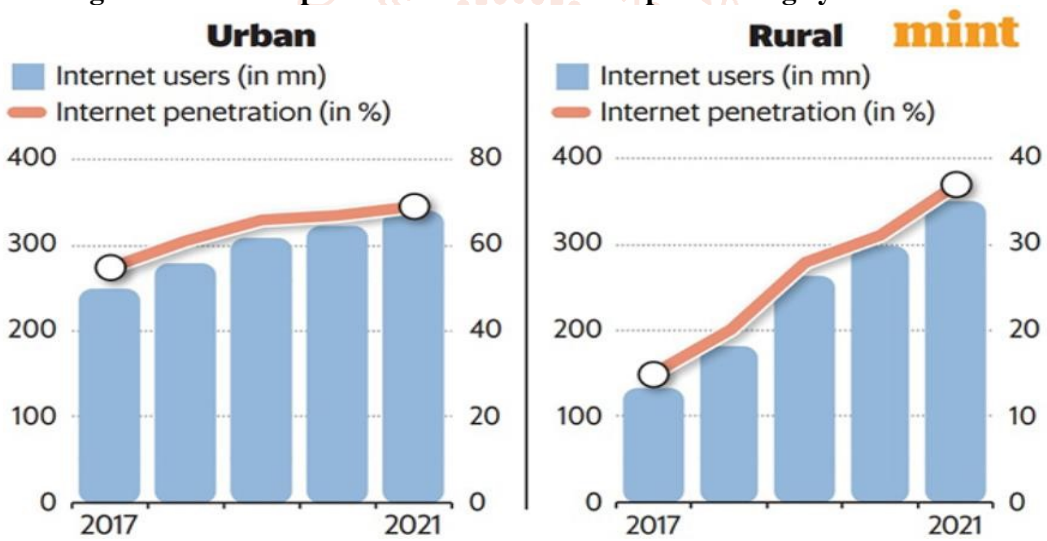
Figure 3: Unified Payments Interface) transactions in India from 2017 to 2023.



Source: National Informatics Centre

The above figure shows the striking increase in transaction volume in billion; by 2023, it has reached 83751.14 billion volume transactions. The most striking feature is the line's acute upward trajectory, which demonstrates an abrupt increase in UPI transactions as time goes on.

Figure 4: Internet penetration in India has expanded hugely since 2017



Source: Internet in India report 2021 report by IAMAI & Kantar

In the above figure 4, between 2017 and 2021, there has been an enormous enhancement in the number of internet users in India in both areas. In contrast to urban India, the expansion rate of internet users and internet penetration has been higher in the rural part of India, leading to filling the gap between urban and rural India year by year.

According to Nielsen India internet report, 2023, internet users in rural India are 44% higher than in urban India with active internet users in urban growing by 10 % while in rural grew by 30 %., thereby leading to narrowing the urban-rural gap 93 % and 86 % of the daily user respectively.

Conclusion:

Digital payment has been seen rising steadily after the pandemic, and the economy has seen a shift from traditional payment systems to online payment in different sectors of the economy. Financial literacy or financial awareness is one of the essential components for switching people to cashless payment. Hence, the main objective of existing research work is to investigate the role of financial knowledge in inducing people to use contactless payment and how this is leading to bridging the digital divide between the urban and rural sectors. After analyzing various research papers, government reports, and various other published sources, the 1951 literacy rate give a base line to present how far education has evolved affect financial behaviour. By

considering the full period 1951 to 2000 the study present how past literacy gap may still impact digital payment adoption today especially in rural ares. we came to the inference the period from 2000 to 2022 that a hike has been observed in the education rate in different parts of the economy in past years, as well as a hike in the adoption of virtual payment platforms has to been observed in rural sector hence leading to bridge the urban-rural gap. This research paper is purely secondary in nature.

Future Research:

Future researchers can use primary data and a quantitative approach to achieve this objective. Secondly, future researchers may also take into study another element apart from financial literacy influencing the adoption of digital payment. Thirdly, we can also consider other variables like employment opportunities, various public services like infrastructure, investment in health and education, etc, to narrow down the gap between the two sectors of the economy.

Social Implications:

- To make people aware of the benefits and use of digital payment. Various schemes, workshops, and online tutorials must be provided to the public in order to induce people to adopt various digital payments.
- Since the future is all about digitalization, students must be given financial literacy and digital payment knowledge from the school itself in order to prepare them for the future.
- New firms devoted to creating digital payment solutions must be provided grants or funds.

References:

[1] Jing, Liu., Chin-Hong, Puah., Mohammad, Affendy, Arip., Meng-Chang, Jong. (2023). Impacts of Digital Financial Inclusion on Urban-Rural Income Disparity: A Comparative Research of the Eastern and Western Regions in China. Economies, doi:10.3390/economies11110282

[2] Maria, Yohana, Kirana., Shinta, Amalina, Hazrati, Havidz. (2020). Financial Literacy and Mobile Payment Usage as Financial Inclusion Determinants. doi:10.1109/ICIMTECH50083.2020.9211157

[3] D., Van, Son., Nguyen, Lien, Huong., Pham, Tuan, Anh. (2023). The Impact of Financial Literacy on the Decision to use a Mobile Payment Application: a Case Study of Households that Have Just Escaped Poverty in Hanoi. RGSA: Revista de Gestão Social e Ambiental, 17(3): e03284-e03284. doi: 10.24857/rgsa. v17n3-006

[4] N., P., Abdul, Azeez., S., M., Jawed, Akhtar. (2021). Digital Financial Literacy and Its Determinants: An Empirical Evidence from Rural India. 8-22. doi:10.9734/SAJSSE/2021/V11I23027

[5] Wu, G., & Peng, Q. (2024). Bridging the digital divide: Unravelling the determinants of fintech adoption in rural communities. *SAGE Open*, *14*(1), 21582440241227770.

[6] Świecka, B., Terefenko, P., Wiśniewski, T., & Xiao, J. (2021). Consumer financial knowledge and cashless payment behavior for sustainable development in Poland. *Sustainability*, *13*(11), 6401.

[7] Ong, M. H. A., Yusri, M. Y., & Ibrahim, N. S. (2023). Use and behavioral intention using digital payment systems among rural residents: Extending the UTAUT-2 model. *Technology in Society*, *74*, 102305

[8] Liu, G., Huang, Y., & Huang, Z. (2021). Determinants and mechanisms of digital financial inclusion development: Based on urban-rural differences. *Agronomy*, *11*(9), 1833.

[9] Ullah, S., Kiani, U. S., Raza, B., & Mustafa, A. (2022). Consumers' intention to adopt payment/m-banking: the role of their financial skills and digital literacy. *Frontiers in Psychology*, *13*, 873708.

[10] Seldal, M. N., & Nyhus, E. K. (2022). Financial vulnerability, financial literacy, and the use of digital payment technologies. *Journal of Consumer Policy*, *45*(2), 281-306.

[11] Peng, P., & Mao, H. (2023). The effect of digital financial inclusion on relative poverty among urban households: a case study on China. *Social Indicators Research*, *165*(2), 377407.

[12] Yu, N., & Wang, Y. (2021). Can digital inclusive finance narrow the Chinese urban-rural income gap? The perspective of the regional urban-rural income structure. *Sustainability*, *13*(11), 6427.

[13] Mo, Y., Mu, J., & Wang, H. (2024). Impact and Mechanism of Digital Inclusive Finance on the Urban-Rural Income Gap of China from a Spatial Econometric Perspective. *Sustainability*, *16*(7), 2641.