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Address for correspondence:

Vaishnavi Shrikant Takane,
Karmaveer Bhaurao Patil
Mahavidyalaya, Pandharpur
Email: -
takanevaishnavi04@gmail.com

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Evaluating the role of digital payments in Enhancing financial inclusions:A case study approach

Vaishnavi Shrikant Takane¹, Kedar Sarika Suresh²

^{1,2} Karmaveer Bhaurao Patil Mahavidyalaya, Pandharpur

Abstract:

Digital payment systems, such as mobile money and online banking, are transforming access to financial services and are playing a key role in advancing financial inclusion. These innovations provide underserved communities with access to crucial services such as payments, savings, and loans. This study explores how digital payments help to overcome barriers related to geography, income, and infrastructure, thereby fostering financial inclusion and economic growth, particularly in remote areas. The main issue addressed is limited access to financial services for underserved populations, especially in rural and isolated regions. Despite the growing availability of digital payment solutions, many still face challenges, such as poor infrastructure, low income, and geographic isolation, which prevent full participation in the financial system. This study assesses how digital payment systems can help overcome these barriers, improve access to vital services, and promote financial inclusion in these communities. In addition to analysing these core issues, the study incorporates real-world examples, particularly from India, where government initiatives such as Digital India have significantly increased digital financial access. It also examines the role of platforms like UPI, Paytm, Google Pay, and PhonePe in driving transaction volumes and financial reach. Furthermore, the study looks at the socio-economic impact of digital financial adoption, especially among low-income households and rural populations. It highlights the need for improved digital literacy, better infrastructure, and user trust to maximize the benefits of digital payments. The findings aim to support policy decisions and contribute to more inclusive financial systems.

Key-words: Digital payments, financial inclusions, Financial Services, Financial accessibility.

Introduction:

The expansion of digital payment systems has played a crucial role in the advancement of financial inclusion, particularly in developing countries. With approximately 1.7 billion adults worldwide lacking access to banking services, digital platforms such as mobile wallets and online banking offer secure and convenient financial solutions, especially in areas where traditional banking infrastructure is scarce. In India, government programs such as Digital India and the Pradhan Mantri Jan Dhan Yojana (PMJDY) have significantly improved access to banking, with over 470 million bank accounts open—under PMJDY by 2021, many of which are linked to mobile phones. Digital payment platforms, such as UPI, Google Pay, PhonePe, and Paytm, have contributed to an increase in digital transactions, particularly in rural and economically disadvantaged areas. India's financial inclusion rate increased from 53% to 80% between 2011 and 2020. This study examines the role of digital payments in promoting financial inclusion, focusing on outcomes such as the growth of digital transactions, the rise in bank account ownership, and socio-economic benefits, while also addressing challenges such as digital literacy and gaps in infrastructure. This study explored the potential of digital payments to drive economic development and improve access to financial services.

Objectives of study:

1. To evaluate the impact of digital payment platforms and government initiatives on improving financial inclusion in underserved and rural areas.
2. To identify the challenges users face in adopting digital payments and suggest ways to overcome them for better financial inclusion in rural and underserved areas.
3. To propose policy recommendations for enhancing the accessibility and effectiveness of digital payment systems to promote broader financial inclusion.

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Scope of study:

This study analyses developments from 2014 to the present, with a particular focus on the growth of digital payments driven by initiatives such as Digital India and the Pradhan Mantri Jan Dhan Yojana (PMJDY). This study examines how mobile wallets, UPI, and online banking platforms have contributed to advancing financial inclusion. This study explores the impact of these government programs on the adoption of digital payment systems, specifically focusing on underserved groups such as rural and low-income households. It assesses improvements in access to essential financial services such as savings, credit, and remittances. This research also addresses challenges, including infrastructure limitations, digital literacy, and security concerns. By evaluating the outcomes of digital payment systems, this study offers valuable insights into their role in enhancing financial inclusion and highlighting areas that require further development.

Importance of study:

This research is crucial because it investigates how digital payment systems enhance financial inclusion, particularly in rural and marginalized communities. Platforms such as mobile wallets and UPI have enabled unbanked individuals to access financial services that were previously out of reach. The study also assesses the influence of government initiatives, such as PMJDY and Digital India, which aim to promote the use of digital payments and provide banking services to those who lack access. The findings of this research can inform improvements to these initiatives and offer policy recommendations to make digital payments more inclusive and accessible, benefiting both individuals and the broader economy.

Choice of Topic

This study evaluates the role of digital payment systems in enhancing financial inclusion by focusing on underserved and rural communities. It examines how platforms such as mobile wallets, online banking, and mobile money services address challenges such as geographic isolation, low income, limited infrastructure, and improved access to essential financial services, such as payments, savings, credit, and remittances. This study highlights the benefits and challenges of digital payment adoption, including digital literacy, security, and infrastructure issues, and provides policy recommendations to improve digital payment accessibility and promote financial inclusion across diverse regions.

Review of literature

Demirguc-Kunt et al. (2018) describe financial inclusion as the ability of individuals to access affordable financial services such as savings, credit, and insurance. Digital payment systems, especially mobile banking and mobile wallets, have been identified as major contributors to financial inclusion. For instance,

Mazer and McKee (2015) assert that mobile money platforms are particularly effective in providing financial services to unbanked individuals in areas with limited access to traditional banking services. The success of mobile money systems such as M-Pesa in Kenya is frequently cited in the literature.

Aker and Mbiti (2010) emphasize how such platforms have enabled rural populations to conduct financial transactions such as money transfers, bill payments, and even access credit, all without the need for a physical bank branch. Additionally, **Jack and Suri (2011)** found that these platforms positively impacted the economic well-being of users by enabling them to send and receive money, thus reducing poverty levels and fostering local businesses.

Nandan and Trivedi (2020) observed that the **Unified Payments Interface (UPI)** in India has simplified digital transactions and greatly improved access to financial services, particularly in rural areas. Thus, the government's role in promoting digital payments and providing access to banking services is seen as crucial for increasing financial inclusion, particularly for marginalized groups.

Research Methodology

The questionnaire collects both quantitative and qualitative data on the use of digital payment platforms, government initiatives, and financial inclusion through a mix of closed and open-ended questions. Semi-structured interviews were conducted with a selected group to gather detailed insights into their personal experiences with digital payments and relevant government programs. Additionally, secondary data, including government reports and policies such as Digital India and PMJDY, are reviewed to assess the overall impact of these initiatives. This approach aims to provide a comprehensive understanding of how digital payment systems support financial inclusion and guide potential policy enhancements.

Sample Design

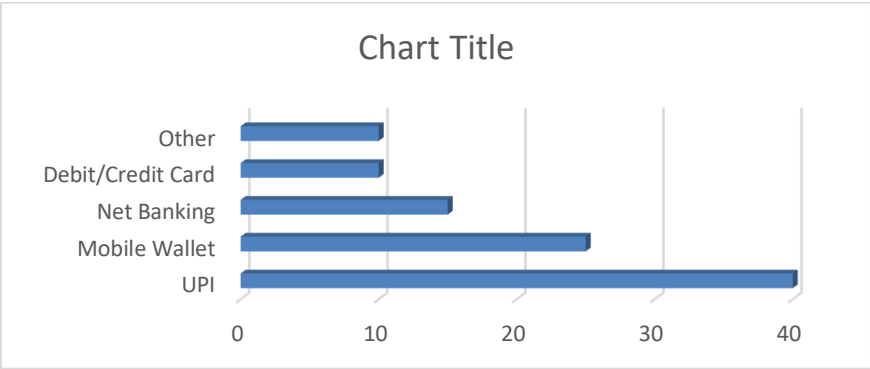
The sample consisted of individuals from rural and underserved areas with limited or no access to traditional banking services. A random sampling method was used to ensure a diverse group based on factors such as income, education, age, and gender. The study included 100 respondents, representing rural, remote, and low-income populations, with a balanced mix of male and female participants.

Methods of Data Collection:

The study used a structured questionnaire to collect data on digital payment use, government programs, and financial inclusion. Semi-structured interviews will be conducted with smaller groups to explore their experiences in more detail. Additionally, secondary data will be gathered from government reports and documents on initiatives such as Digital India and PMJDY to provide context and insights into the evolution of digital payment systems.

Data Analysis and Interpretation:
Payment Method Preferences:

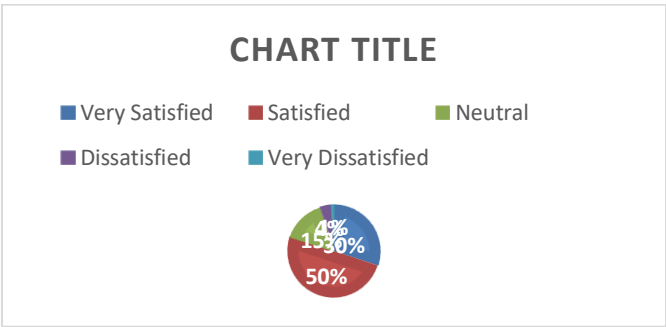
Payment Method	Number of Users
UPI	40
Mobile Wallet	25
Net Banking	15
Debit/Credit Card	10
Other	10



From this chart, it's evident that UPI is the most popular payment method among the surveyed users, followed by Mobile Wallets.

User Satisfaction Levels with Digital Payments:

Satisfaction Level	Number of Respondents
Very Satisfied	30
Satisfied	50
Neutral	15
Dissatisfied	4
Very Dissatisfied	1



This chart indicates that the majority of users were satisfied with digital payment methods, with a small percentage expressing dissatisfaction.

Challenges in Using Digital Payments

Challenges in Using Digital Payments	Respondent Count	Percentage (%)
Poor Internet Connectivity	30	30%
Difficulty Understanding How to Use Platforms	20	20%
Security Concerns	35	35%
Lack of Trust in Digital Transactions	10	10%
None of the Above	5	5%

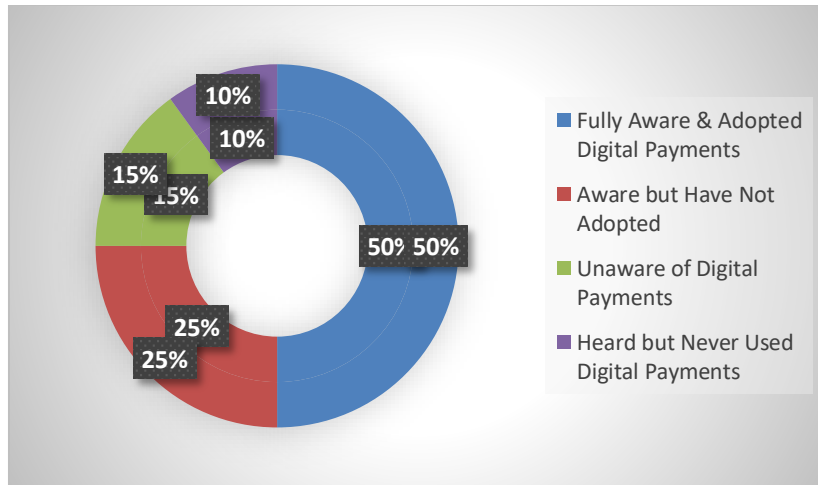
The data analysis reveals that the primary challenges in using digital payments are security concerns (40%), poor Internet connectivity (35%), and difficulty understanding platforms (25%). Lack of trust in digital transactions also affects 20% of users.

These issues highlight the need for improved security, better Internet infrastructure, digital literacy programs, and trust-building initiatives to foster broader adoption of digital payment systems, especially in underserved areas.

User Awareness and Adoption of Digital Payments

This table evaluates the awareness levels of users of digital payment systems; and their adoption rates.

Awareness and Adoption Level	Number of Respondents	Percentage (%)
Fully Aware & Adopted Digital Payments	50	50%
Aware but Have Not Adopted	25	25%
Unaware of Digital Payments	15	15%
Heard but Never Used Digital Payments	10	10%



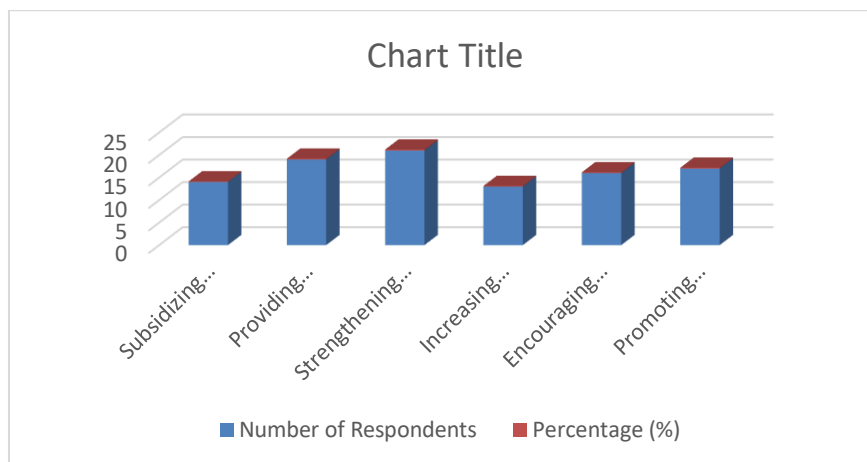
The data shows that 50% of the respondents (50%) are aware of and have adopted digital payments, suggesting that these systems are well-integrated into their financial routines. However, 25% of participants were aware of digital payments but had not yet adopted them, indicating potential obstacles such as trust, accessibility, or perceived complexity. Additionally, 15% of respondents lacked awareness of digital payment systems, emphasizing the need for

focused outreach, particularly in underserved regions. A further 10% have heard of digital payments but have never used them, pointing to the fact that, while there is some awareness, practical challenges prevent full adoption. To increase financial inclusion, it is essential to address these barriers through targeted education, enhance security measures, and provide more user-friendly platforms to encourage broader use.

Proposed Policy Recommendations for Enhancing Digital Payment Accessibility

This table outlines policy recommendations for improving digital payment systems

Policy Recommendation	Number of Respondents	Percentage (%)
Subsidizing Internet/Data Costs	14	14%
Providing Training on Digital Literacy	19	19%
Strengthening Security Measures for Transactions	21	21%
Increasing Availability of Digital Payment Access Points	13	13%
Encouraging Mobile Wallet and UPI Integration	16	16%
Promoting Government Awareness Campaigns	17	17%



The survey highlighted several important policy suggestions for improving—access to digital payments and promoting financial inclusion. The top recommendation (21%) focused on enhancing security measures to ensure user trust and protect against fraud, while 19% called for training programs to improve digital literacy and equip individuals with the skills to use digital payment systems. Additionally, 17% supported government-led awareness campaigns to increase public understanding of digital payments. Another 16% advocate for the integration of mobile wallets and UPI to streamline transactions, while 13% suggest expanding digital payment access points, especially in rural or underserved regions. Finally, 14% recommend subsidizing the Internet and data costs to improve accessibility. These recommendations emphasize the need to address both educational and infrastructural barriers to facilitate the broader adoption of digital payments for financial inclusion

Findings of Research

1. UPI is the most commonly used digital payment method among participants, followed by mobile wallets.
2. 80% of participants reported being satisfied with digital payment systems, with 30% being extremely satisfied.
3. Security concerns were identified as the main obstacle to adoption by 40% of respondents.
4. 35% of participants pointed to poor internet connectivity as a major challenge.
5. 25% of users had trouble understanding how to navigate digital payment platforms.
6. 20% of respondents expressed a lack of trust in digital transactions.
7. The results highlight the need for stronger security, improved internet access, and digital literacy initiatives to enhance financial inclusion.

Suggestions

1. Invest to improve Internet infrastructure and mobile network coverage to enhance connectivity in rural areas.
2. Implement widespread digital literacy campaigns to help underserved communities understand digital payment systems.
3. Strengthen security measures by enhancing encryption systems and educating users about safe transaction practices.
4. Expand government initiatives such as Digital India and PMJDY, with incentives for digital payment adoption in remote areas.
5. Develop financial products such as small loans and microcredit tailored for low-income groups to promote financial inclusion.
6. Building trust in digital payments through awareness campaigns and partnerships with local communities to endorse these platforms.

Conclusion

This study emphasizes the role of digital payments in advancing financial inclusion, particularly in rural and underserved areas. Platforms such as UPI and mobile wallets have made essential

financial services more accessible, yet challenges such as security risks, inadequate Internet access, and limited digital literacy persist. To overcome these barriers, improving the infrastructure, offering digital literacy programs, and enhancing security measures are essential. Additionally, expanding government initiatives and developing financial products designed for low-income groups will help increase adoption and inclusivity, fostering greater economic empowerment in marginalized communities.

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Conflicts of Interest

The authors declare that there are no conflicts of interest regarding the publication of this paper

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