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An Empirical Study on Influence of Behavioral Factors on Adoption of Digital Finance

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Abstract:

"We're witnessing the creative destruction of financial services, rearranging itself around the consumer, who does this in the most relevant, exciting way using data and digital, wins!"-Arvind Sankaran. The rapid expansion of digital finance has transformed financial services, yet its adoption continues to vary widely across user groups. This study empirically examines how key behavioral factors influence individuals' adoption of digital finance platforms. The research investigates the roles of perceived usefulness, perceived ease of use, trust, risk perception, social influence, and financial literacy in shaping user intentions and actual usage behavior.

Keywords: Fintech, Digital Finance, RTGC,NEFT, Behavioural Patterns

1. Introduction

The digital revolution has influenced the various industries in India and the world. The adoption of new and emerging technologies has taken a center stageproviding consumers with a variety of digital offering to attract them towards its usage.Amidst this revolution, the finance industry moved forward with the change and introduced digital finance. Digital finance is the root towards attaining economic development. Digital finance is the lifeline for economic enhancement enabling businesses, and individuals to invest, save, and pay through digital platforms. According to McKinsey Global Institute (2016), two million people lack the accessibilityof a bank in the developing world. Consumers today need a simple, affordable solution for accessing financial services. Consumers are shifting toward digital finance as a result of the younger generation's increased propensity to use technology, including the internet and digital platforms. Yet, consumers are still hesitant to provide both their personal and financialinformation on digital platforms. Agarwal et al. (2017) stated two elements will govern the success of digitalization implementation. First, the low- income segment group's adoption of digital solutions, which is influenced by access toand use of mobile devices, credit, banking services, and digital literacy. Second, given knowledge of all the possibilities available, users' willingness to continue use digital finance for financial transactions. Digitalization helps to enhance the communication with the different stakeholders increasing the rapport with one another (Gaikwad, 2021).

2. Background of Study

Financial services have been explained as the services available through digitalchannels. These services include savings, payments, insurance, and credit. Further the digital channels comprise of internet, mobile phones, POS terminals, ATMs, tablets, electronically enabled cards, and other digital platforms. Thus, delivering these financial services through digital platforms of channels is known as digital financial services. Recently, mobile financial services have also been included in the definition of digital finance (Srivastava, 2019).

Fintech enterprises and inventive financial service providers supply a slew of new financial products, finance-related software, financial businesses, and unique waysof client communication and interaction under the umbrella of digital finance (Gomber,Koch, & Siering, 2017). The reach of digital finance is not limited to the financial sector only but is also useful for agricultural, transportation, health, water, education, and many more. It is clear from the above discussion that the digital finance leads to easy accessibility of financial services further leading to increase in financial inclusion of the economy. The developing countries are on the path of accepting digital financial services as 50% of the population are owners of mobile phones through which digital financial services can be accessed (World Bank, 2014). Digital finance has been positioned in the market in such a manner that it

easesthe process of receiving money and making payments. It is an economical platform forusers as it reduces the transaction cost, improves the speed of transactions, and providesa more transparent and secure method of transacting. Since, digital financial services are provided through FinTech, the services can reach the poor by modifying the financial services provided (Pazarbasioglu, et al., 2020). The concept of digital finance has been explained in the report of (McKinsey, 2016) as "financial services delivered through digital platforms over internet and phones. Any digital finance service will allow users to save money and reduced interaction with the traditional banks. It is a platform of connectivity and building infrastructure for digitized national payments bringing individuals and businesses together. Transactions done through mobiles, computers and cards create an environment of convenience assisting in seamless transactions."

Digital Finance is a platform through which a connection between individuals,businesses, enterprises and digital payment infrastructure has been established for conducting seamless and convenient transactions (Dara, 2018). Easy access of financialservices can be achieved through digital finance by offering it at low cost (Ozili, 2018). (Ozili, 2020) claimed that the shortcomings of traditional financial services can be overcome by digital finance since they are provided through internet and mobile phones.

- **Digital Financial Services – Types**

a) Customers of banks and other financial institutions canundertake a variety of financial activities via internet banking, also referred to as e-banking, online banking, virtual banking, or digital banking. Internet banking provides people with a platform to transfer money/funds across different accounts and banks all over India and abroad. NEFT is yet another system through which anyindividual, businesses, corporates can transfer money to the other party with ease. The money through this mode can be transferred inter and intra banks.The online payment service also allows to transfer money from/to recipientsin Nepal known as Indo-Nepal Remittance Facility Scheme. The RBI has not imposed any limitation on the amount of transaction conducted throughNEFT. However, it has levied certain charges according to the amount of transaction. Such charges are exempted for NEFT transaction done from savings account or online mode.

b) RTGS (Real Time Gross Settlement): The transfer of money is done on "realtime" basis as suggested. The funds are transferred immediately to the beneficiaries account without any delay. In India, RTGS is preferred only for high transaction values.

c) Investments: Internet banking allows people to raise money and offer consultancy services regarding investment decisions. Investment avenues include financial services like trading in shares, mutual funds, fixed deposits, recurring deposits, Silver, Gold, Bonds, etc. To access this service, a person requires a DEMAT account through which he/she can decide on which optionsto invest.

d) Plastic Money: A debit card is explained as plastic money carried by individualsand make purchases just form the convenience of a card. The debit card as the name suggests allows an individual to use the amount available in their account.Generally, an overdraft service is not available on the debit card. On the other hand, credit cards are issued by financial companies allowing individuals to make purchases on credit, meaning that the individuals buy the products but make an actual payment on a later date. If the card holder fails to make the payment on or before the due date, then a certain interest is charged for the default. Both the mode of digital finance provides convenience of payment, where only a card has to be carried and no care has to be taken of carrying cashin hand.

e) Mobile Banking: Mobile banking is an advanced version of internet banking which allows users to access financial services on their mobile phones. These services are provided by banks and financial institutions. Mobile banking has provided customers with convenience, usage of financial services at any place and time. However, to access these financial services through digital platforms, internet connectivity is an essential requirement apart from mobile phones. Thedigital finance service i.e., mobile banking assists users in making transfers, payments, generating bills, requesting issue of cheque books, credit/debit cardsetc.

f) E-Wallets: E-wallets or mobile wallets can be explained as a digitized version of the actual wallets (Shukla , 2016). Through e-wallets, an individual can transfer a certain amount from bank accounts and/or

debit/credit cards to the wallet for easy exchange of money. The money could be transferred from one wallet to another with no account details required. This resulted in less usage ofpoint of sales terminal (Sharma, 2011). A few examples of e-wallets in India arePaytm, Mobiwik, Freecharge, M-Pesa etc. (Lonare, Yadav, & Sindhu, 2018)

3. Objectives of Study:

1. To examine the role of cognitive factor on intention to adopt digital finance

2. To analyze the influence of behavioral biases on digital finance adoption

3. To study the moderating effect of user type between the relationship of behavioral factors and adoption of digital finance

4. Hypothesis of study:

H1: Perceived risk is associated to the adoption intention of digital finance.

H2: User type moderates the relationship between perceived risk and digital finance

5. Data Analysis:

The assessment of structural model was followed by the assessment of reflective measurement model. The structural model will be assessed through examining Variation Inflation Factors (VIF), hypotheses testing, predictive relevance (Q^2), and goodness of fit of the model. The first step of analysing the structural model is to ensure the absence of multi- collinearity among the constructs (Hair, Risher, Sarstedt, & Ringle, 2019). This was achieved by calculating the VIF values on SPSSv25.

Multicollinearity Examination

Constructs	**VIFs**
Conv	2.553
EB	1.973
FR	2.624
PB	1.178
PR	1.178
PerfR	1.989
SR	2.103
ST	2.800

The path coefficients were used to examine the importance of the relationship between exogenous (ATT, PBC, SN) and endogenous (ADF) variables as displayed in Table.Between the relationships formed among exogeneous and endogenous constructs, a positive relationship existed between ATT (β = 0.398, t = 7.130), PBC (β

= 0.178, t = 2.877), SN (β = 0.113, t = 3.120) and ADF at p = 0.05, t □ 1.96.

Path Coefficients

	Original Sample (O)	**Standard Deviation (STDEV)**	**T Statistics (|O/STDEV|)**	**P Values**	**Decision**

ATT -> ADF	0.398	0.056	7.13	0.000	Supported
PBC -> ADF	0.178	0.062	2.877	0.004	Supported
SN -> ADF	0.113	0.036	3.12	0.002	Supported

The assessment of moderating variable initiated with the multi-group analysis (MGA). The MGA technique bifurcates the results between the p value of the two groups established and calculates the difference in path coefficients (Henseler, Ringle, & Sarstedt, 2016; Hair J. , Hult, Ringle, Sarstedt, & Thiele, 2017). The present study has included user type as the moderating variable. The data set has been divided into two groups, namely – early adopters and late adopters. The sample of the two groups consisted 295 early adopters and 193 late adopters. The user type – early and late adopters moderates the relationship positively between exogenous construct – OC (t = 2.138) and endogenous construct - ADF at p □ 0.1. Furthermore, the user type – early and late adopters moderates the relationship negatively between exogenous construct – RA (t = 1.648) and endogenous construct - ADF at p □ 0.1. However, the user type – early and late adopters do not moderate the relationship between exogenous constructs HB (t = 0.747), SQB (t = 0.632) and endogenous construct - ADF at p □ 0.1.

Significance of Moderating Variable

Hypotheses	**Path Coefficients (EA - LA)**	**t- value**	**Decision**
HB -> ADF	0.043	0.747*	Not Supported
OC -> ADF	0.185	2.138*	Supported
RA -> ADF	-0.112	1.648**	Supported
SQB -> ADF	0.050	0.632*	Not Supported

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Significance of Moderating Variable

Hypotheses	**Path Coefficient (EA-LA)**	**t- value**	**Decision**
Conv -> PB	0.271	3.107*	Supported

EB -> PB	0.005	0.049*	Not Supported
FR -> PR	-0.066	0.737*	Not Supported
PB -> ADF	0.146	1.648**	Supported
PR -> ADF	0.060	0.676*	Not Supported
PerfR -> PR	-0.221	1.856**	Supported
SR -> PR	-0.304	2.820*	Supported
ST -> PB	0.201	1.893**	Supported

Note(s): *p < 0.05, **p < 0.1

6. Conclusion:

The financial industry is dynamic in nature, and the sudden occurrence of the pandemic has led to a sudden shift in the behaviour of individuals. The effect of covid-19 has led to a positive change in the adoption process of digital finance. Therefore, to study the behavioural aspects of individual's perception in digital finance became empirical. However, study of behavioural aspects alone is not sufficient. To get a bigger picture, the study had also bifurcated the user types into early and late adopters and had studied the variable as a moderator. The individuals who were aware and or used digital finance were approached with the help of a structured questionnaire. Further, quantitative analysis was used to draw and reach to the conclusions of the study. The demographic profile of the respondents was discussed, and it revealed that the study was dominated by the male individuals. A sufficient number of respondents were represented as females. A term 'Digital Gender Divide' has been coined to represent the gender gap in online technological advancements. Digital gender divide is created due to digital illiteracy, affordability, accessibility, basic education, inherent biases, and socio-cultural norms. The cognitive factors outline that risk-benefit framework working on two main factors as it is clear from the term. These two variables (risk and benefit), however have their own components or constructs to explain their effect. The perceived risk has been bifurcated into three constructs namely, financial risk, performance risk, and security risk. To further the analysis and frame a comprehensive conclusion, perceived benefits was divided into seamless transaction, economic benefits, and convenience.

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