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## **FINANCIAL LITERACY AND DIGITAL PAYMENT SYSTEM IN INDIA**

Kisan Shikshan Prasarak Mandal, Borgaon (Kale), Tq. & Dist. Latur  
Affiliated to Dr. Babasaheb Ambedkar Marathwada University, Aurangabad

**VASANTRAO KALE MAHAVIDYALAYA,**

DHOKI, TQ. & DIST. OSMANABAD. (MS)

Saturday, 28<sup>th</sup> December 2019



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Vasant Rao Kale Mahavidyalaya, Dhoki  
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**Dr. Balasaheb Maind**  
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28<sup>th</sup> December 2019.

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## Financial Literacy and Its Impact on Digital Payment System

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### Abstract:

After 1990's India adopting the policy of liberalisation, privatisation and globalisation there is rapid growth in Indian economy. This policy result that expansion of financial market and it gives way to overabundance of financial product in banking, investment and loan product. There is lot of financial services provided by the financial institution. But lacks of financial literacy prevent individuals from making right choice regarding financial decisions. If we want to earn, save and invest money form right alternative then we must have knowledge of finance, financial services and so on. The objective of the study is to study the level of financial literacy and impact of financial illiteracy on digital payment system.  
**Keyword:** finance, financial literacy, digital payment system, impact of financial illiteracy on digital payment system.

### Introduction:

"If you don't understand the language of money, and you don't have a bank account, then you're just an economic slave." – John Hope Bryant, CEO of Operation HOPE

Financial literacy is the education and understanding of various financial areas. It is ability to manage finance matters in an efficient manner. It includes the knowledge of making appropriate decision about personal finance such as, investing, insurance, real estate, paying for college, budging and tax planning. Financial literacy helps individuals become self-sufficient so that they can achieve financial stability.

It is the presence of monetary services that allows a rustic to enhance its condition whereby there's a lot of production altogether the sectors resulting in economic process.

The advantage of economic development is mirrored on the individuals within the kind of economic prosperity whereby the individual enjoys higher commonplace of living. It's here the monetary services alter a personal to amass or acquire numerous client product through rent purchase. Within the method, there square measure variety of economic establishments that additionally earns profits. The presence of those monetary places promote investment, production, saving etc. thus financial skill becomes important for financial services.

Financial skill is extremely vital as a result of life is all regarding cash, i.e., paying of your bill, paying vacation; paying on kid education etc. everything is within the sort of cash. Most of the individuals not perceive a way to save cash or invest money because of lack of financial skill. Financial skill is that the ability to know however cash works.

Financial literacy is that the education and understanding of varied financial areas as well as topics associated with managing personal finance, cash and finance. Financial literacy may be classified in to a few classes i.e. creating cash, managing cash and investment cash. The most steps to achieving financial literacy embrace learning the abilities to make a budget, the flexibility to trace defrayal, learning the techniques to pay off debt and effectively designing for retirement. These steps also can embrace guidance from a financial professional. Education regarding the subject involves understanding how cash works, making and achieving financial goals and managing internal and external monetary challenges.

### Need of financial literacy:

Financial literacy is currently one in every of the highest priorities for many nations. It's a lot of important for developing nations like India, wherever the bulk notices financial literacy on the far side comprehension. Financial literacy, in keeping with its literal definition, is the ability to use skills and information to require effective and familiar cash management choices. For a country like India, it plays a much bigger role, because it is taken into account a vital adjunct for the promotion of financial inclusion and ultimately financial stability.

As per a worldwide survey by commonplace & Poor's financial Services LLC (S&P) solely 25th of adults or less measure financially literate in South Asian countries. For an average Indian, financial literacy is however to become a priority. India is home to 17.5% of the world's population and nearly 76 of its adult population don't perceive even the essential financial ideas. If we have a tendency to do the comparison with different nation like North American country, financial literacy promotion was started in 1908 by American depository financial institution Movement by the American depository financial institution Movement. In 1957, financial education was created mandatory by the state of Nevada, and other states followed. Australia provides financial literacy education through tailored programs, whereas Asian countries like Indonesia and Singapore



have productive precedents in financial literacy drives. So, India is much behind developed nations in financial literacy efforts.

In addition, there square measure bound incorrect beliefs related to financial literacy - the foremost common being the myth that one who is 'literate' or 'rich' is 'financially literate' too. Lack of basic financial understanding results in unproductive investment choices. the requirement of the hour is for a forceful overhaul of approach to savings and investments by Indian households.

The digitalisation of financial product and services, and also the resultant ought to strengthen digital financial skill has become a vital element of the worldwide political agenda. This steering aims to spot and promote effective initiatives that enhance digital and monetary acquirement in light of the distinctive characteristics, advantages, and risks of digital financial services and channels.

Empirical proof points to the actual fact that digital efforts like video clips, short films and interactive quizzes on financial education have had a so much larger impact than the traditional medium. Digital fluency is predicted to extend with the government's initiatives like Digital India.

The recent mammoth exercise of demonetization should facilitate bring more individuals to the organized sector and thereby opening up prospects for monetary inclusion and skill. Currently, solely thirty fifth of Indian has bank accounts, against sixty three in China.

The launch of digital wallets, universal payments interface (UPI), and new age commercial and payment banks have made-up new ways that for a less cash economy. There's a large scope with solely a pair of Indians using mobiles for payments, against 11 November in Nigeria. The push to extend usage of mobiles for payments is important, as India is already the world's second biggest smartphone market with over 220 million smartphone users. Mobile internet users in India total 350 million and expected to grow fifty million per annum until 2020. These numbers produce huge prospects from going digital and make new opportunities to interact and share financial information with customers.

#### **Digital payment System:**

The Government of India has been taking several live to promote and encourage digital payments within the country. As a part of the 'digital India campaign the government aims to make a digitally empowered' economy that's 'faceless, paperless, cashless'. There square measure varied sorts and modes of digital payment apps, unified payment interface [UPI] service, Unstructured Supplementary Service data [USSD] , bank prepaid card, Mobile banking etc.

Digital Payment methods are usually simple to form, a lot of convenient and different to traditional ways of payment and speed up transaction cycles. Post monetisation, individuals slowly started embrace digital payments and even little time merchants and shop owner started accepting payment

In other words, digital payment occurs when goods or services are purchased through the use of various electronic medium. There is no use of cash or cheques in this type of payment method.

#### **Types of Digital Payment Methods in India;**

1. Banking cards
2. Aadhar Enabled Payment System [AEPS]
3. USSD
4. UPI
5. Mobile Wallets
6. Bank pre-paid card
7. Point of Sale [POS]
8. Internet Banking
9. Mobile banking
10. Bharat Interface for Money [BHIM] app

#### **Objective Of The Study**

1. To understand the digital financial system
2. To understand how digital financial literacy is affected on digital payment system
3. To understand the requirement of financial literacy.

#### **Research Methodology:**

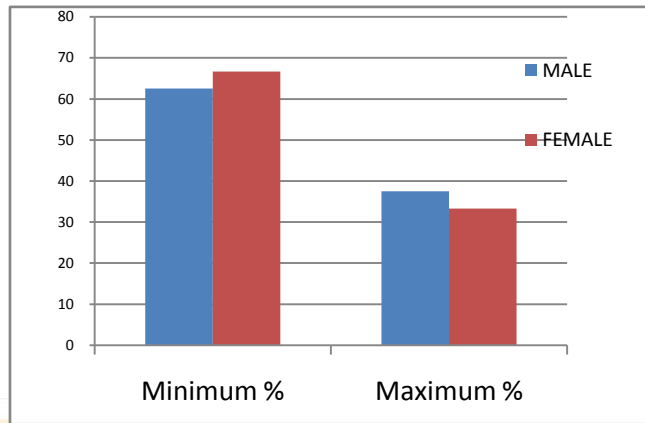
The present study is based on primary data and secondary data. The information relating to the effect of financial literacy on digital payment system is based on study through the survey with the help of questionnaire. The total sample size is 100. These respondents are chosen on sampling basis. In order to understand the effect of financial literacy on digital payment system,



**Data Analysis And Interpretation:**

**Q.10] To what extend is you aware of digital payment system?**

| Awareness of Digital Payment System |        |           |           |
|-------------------------------------|--------|-----------|-----------|
| No. of Respondent                   | Gender | Minimum % | Maximum % |
| 45                                  | MALE   | 62.5      | 37.5      |
| 15                                  | FEMALE | 66.67     | 33.33     |



**Interpretation:** From the above chart it represents that most of the respondents are not aware of most of the digital payment system mode and there is need to give education about digital finance and its uses.

**Conclusion:**

Digital payment system have more secures features; it helps to reduce cost of managing. But while following this system people faces some problems at present. To solve this problem Government take efforts in creating awareness building trust, providing cyber security framework and necessary infrastructure will make it possible for faster acceptance among the public to adapt towards digital payment systems.

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## Digital Payment Methods and Problems

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Digital India is a campaign launched by the Government of India in order to ensure the Government's services are made available to citizens electronically by improved online infrastructure and by increasing Internet connectivity or by making the country digitally empowered in the field of technology. The initiative includes plans to connect rural areas with high-speed internet networks. Digital India consists of three core components: the development of secure and stable digital infrastructure, delivering government services digitally, and universal digital literacy. Digital India was launched by the Prime Minister of India Narendra Modi on 1 July 2015 with an objective of connecting rural areas with high-speed Internet networks and improving digital literacy. The vision of Digital India programme is inclusive growth in areas of electronic services, products, manufacturing and job opportunities. It is centered on three key areas – digital infrastructure as a utility to every citizen, governance and services on demand, and digital empowerment of citizens.

Digital Payment is one part of this campaign. Digital payments are technically defined as any payments made using digital instruments. In digital payment, the payer and the payee, both use electronic modes to send and receive money. Digital transactions are defined as transactions in which the customer authorizes the transfer of money through electronic means, and the funds flow directly from one account to another. These accounts could be held in banks or with providers. Digital Payment methods are used in India as follows in recent time.

**Banking Cards :** Cards are among the most widely used payment methods. The wide variety of cards available – including credit, debit and prepaid . Banking cards offer consumers more security, convenience, and control than any other payment method. The main advantage of debit/credit or prepaid banking cards is that they can be used to make other types of digital payments. These cards provide two factor authentication for secure payments one is secure PIN and second is OTP. Some of the most reputed and well-known card payment systems are RuPay, Visa, Master Card, among others. Banking cards can be used for online purchases, in digital payment apps, PoS machines, online transactions, etc.

**Internet Banking :** Internet banking, also known as online banking, e-banking or virtual banking, is an electronic payment system that enables customers of a bank to conduct a range of financial transactions through the bank's official website. Internet banking refers to the process of carrying out banking transactions online. These may include many services such as transferring funds, opening a new fixed or recurring deposit, closing an account, etc. Internet banking is usually used to make online fund transfers via NEFT, RTGS or IMPS. Banks offer customers all types of banking services through their website and a customer can log into his account by using a username and password. Unlike visiting a physical bank, there are no time restrictions for internet banking services and they can be availed at any time and on all 365 days in a year. There is a wide scope for internet banking services

**National Electronic Fund Transfer (NEFT) :** NEFT is a nation-wide payment system facilitating one-to-one funds transfer. Under this Scheme, individuals, firms and corporates can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the Scheme. Individuals, firms or corporates maintaining accounts with a bank branch can transfer funds using NEFT.

**Real Time Gross Settlement (RTGS) :** RTGS is defined as the continuous settlement of fund transfers on individually on an order by order basis 'Real Time' means the processing of instructions at the time they are received rather than at some later time; 'Gross Settlement' means the settlement of funds transfer instructions occurs individually Considering that the funds settlement takes place in the books of the Reserve Bank of India, the payments are final and irrevocable. The RTGS system is primarily meant for large value transactions.

**Immediate Money Payment Service (IMPS) :** IMPS offers an instant, 24X7, interbank electronic fund transfer service through mobile phones. IMPS is an emphatic tool to transfer money instantly within banks across India through mobile, internet and ATM which is not only safe but also economical both in financial and non-financial perspectives.

**Mobile Banking:** Mobile banking is referred to the process of carrying out financial transactions/banking transactions through a smartphone. The scope of mobile banking is only expanding with the introduction of many mobile wallets, digital payment apps and other services like the UPI. Many banks

have their own apps and customers can download the same to carry out banking transactions at the click of a button.

**Bharat Interface for Money (BHIM) :** The BHIM app allows users to make payments using the UPI application. This also works in collaboration with UPI and transactions can be carried out using a VPA. One can link his/her bank account with the BHIM interface easily. It is also possible to link multiple bank accounts. The BHIM app can be used by anyone who has a mobile number, debit card and a valid bank account. Money can be sent to different bank accounts, virtual addresses or to an Aadhaar number. There are also many banks that have collaborated with the NPCI and BHIM to allow customers to use this interface.

**Unified Payments Interface (UPI) :** UPI is a type of interoperable payment system through which any customer holding any bank account can send and receive money through a UPI-based app. The service allows a user to link more than one bank account on a UPI app on their smartphone to seamlessly initiate fund transfers and make collect requests on a 24/7 basis and on all 365 days a year. The main advantage of UPI is that it enables users to transfer money without a bank account or IFSC code. To use the service one should have a valid bank account and a registered mobile number, which is linked to the same bank account. There are no transaction charges for using UPI. Through this, a customer can send and receive money and make balance enquiries.

**Unstructured Supplementary Service Data(USSD) :** USSD is Another type of digital payment method, \*99#, can be used to carry out mobile transactions without downloading any app. \*99#, service has been launched to take the banking services to every common man across the country. Banking customers can avail this service by dialling \*99#, a “Common number across all Telecom Service Providers (TSPs)” on their mobile phone and transact through an interactive menu displayed on the mobile screen. These types of payments can also be made with no mobile data facility. This facility is backed by the USSD along with the National Payments Corporation of India (NPCI). The main aim of this type of digital payment service is to create an environment of inclusion among the underserved sections of society and integrate them into mainstream banking. This service can be used to initiate fund transfers, get a look at bank statements and make balance queries. Another advantage of this type of payment system is that it is also available in Hindi.

**Mobile Wallets:** mobile wallet is a way to carry cash in digital format. A mobile wallet is a type of virtual wallet service that can be used by downloading an app. The digital or mobile wallet stores bank account or bank card information or bank account information in an encoded format to allow secure payments. One can also add money to a mobile wallet and use the same to make payments and purchase goods and services. Many banks in the country have launched e-wallet services and apart from banks, there are also many private players. Some of the mobile wallet apps in the market are Google pay, Phone-pay, Amazon-pay, Paytm, Airtel-money, Jio-money, etc. The various services offered by mobile wallets include sending and receiving money, making payments to merchants, online purchases, etc.

**Aadhaar Enabled Payment System ( AEPS) :** AEPS can be used for all banking transactions such as balance enquiry, cash withdrawal, cash deposit, payment transactions, Aadhaar to Aadhaar fund transfers, etc. All transactions are carried out through a banking correspondent based on Aadhaar verification. There is no need to physically visit a branch, provide debit or credit cards, or even make a signature on a document. This service can only be availed if your Aadhaar number is registered with the bank where you hold an account. This is another initiative taken by the NPCI to promote digital payments in the country.

**Micro ATM :** The micro platform will enable function through low cost devices (micro ATMs) that will be connected to banks across the country. Micro ATM is a device that is used by a million Business Correspondents to deliver basic banking services. The platform will enable Business Correspondents to conduct instant transactions. This would enable a person to instantly deposit or withdraw funds regardless of the bank associated with a particular BC. This device will be based on a mobile phone connection and would be made available at every BC. Customers would just have to get their identity authenticated and withdraw or put money into their bank accounts.

**Electronic Clearing System(ECS) :** ECS is an alternative method for effecting payment transactions in respect of the utility-bill-payments such as telephone bills, electricity bills, insurance premier, card payments and loan repayments, etc., which would obviate the need for issuing and handling paper instruments and thereby facilitate improved customer service by banks

### **Benefits of Digital payments**

**Save Time & more convenient:** Perhaps, one of the biggest advantages of cashless payments is that it speeds up the payment process and there is no need to fill in lengthy information. There is no need to stand in a line to withdraw money from an ATM or carry cards in the wallet. Also, with the move to digital, banking services will be available to customers **on a 24/7 basis and on all days of a year, including bank holidays.**



**Economical and less transaction fee:** There are many payment apps and mobile wallets that do not charge any kind of service fee or processing fee for the service provided. The UPI interface is one such example, where services can be utilized by the customer free of cost. Various digital payments systems are bringing down costs.

**Reduced theft risk:** It's simple to block a digital wallet that has been compromised whereas it is almost impossible to retrieve physical cash that has been stolen from you

**Waivers, discounts and cashbacks:** There are many rewards and discounts offered to customers using digital payment apps and mobile wallets. There are attractive cash back offers given by many digital payment banks. This comes as boon to customers and also acts a motivational factor to go cashless.

**Transparency in record of transactions:** One of the other benefits of going digital is that all transaction records can be maintained **Transparently**. Customers can track each and every transaction that is made, no matter how small the transaction amount this.

Digital payments will revolutionize the field of technology. There are many benefits to digital payments however On the other hand there are many problems to consider. The main problems are as follows.

- 1) No more internet coverage and infrastructure in rural and remote areas.
- 2) People still don't trust digital payments. They do not feel secure in making digital payments.
- 3) Peoples emphasize in the traditional way. Exchange via digital payment it didn't work out today. Dutifully they carry their cash and believe they are safe and in control at all times.
- 4) In a country like India there is a perception that having every transaction be tracked could invite trouble via more scrutiny or higher taxes. Cash transaction is done to save tax.
- 5) Cash is accepted everywhere. Digital payments are not.

However, Digital payment is secure & Transparent. Digital payments have the power to stop corruption. So digital payment is the need of the Nation & need of the hour.

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