

THE TRANSITION TO A CASHLESS ECONOMY THROUGH DIGITAL PAYMENT SYSTEMS: ANALYZING THE IMPACTS ON CONSUMER SPENDING BEHAVIOR

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ABSTRACT

The transition to a cashless economy has been accelerated by the widespread adoption of digital payment systems, transforming consumer spending behavior and financial transactions. Platforms such as mobile wallets, contactless payment, online banking provide convenience, security, and efficiency, influencing purchasing decisions and financial management. This study explores the impact of digital payment systems on consumer spending patterns, analyzing factors such as transaction frequency, spending habits. A structured questionnaire was used to gather data from varied group of consumers. The collected information was then analyzed using percentage analysis. The findings reveal an increasing dependence on digital payment and their influence on contemporary economic activities. The study emphasizes the importance of businesses and consumers to adapt to this seamless digital payment integration to enhance consumer experience and financial inclusion.

KEYWORDS: Cashless economy, Digital payment, Consumer spending, Financial Behavior.

INTRODUCTION

The transition from a cash-based economy to a cashless economy represents a significant shift in the way financial transaction is conducted globally. A cashless economy eliminated the dependency on physical currency encourages the adoption of digital payment platforms. In recent year, widespread of digital payment methods has completely changed how customers handle and complete transaction in recent years. Digital payment systems provide customers with unmatched convenience by enabling them to transact quickly and easily from almost anywhere. Customers purchasing habits have clearly changed as a result of this simplicity of use, with an increase in frequency and a preference for urge purchases. This transition to a cash less economy in digital payment system it is rapidly transforming the consumer spending behavior habits by offering the greater convenience, speed, security, reward points etc., so the consumer spending using digital payment method is increasing.

DIGITAL PAYMENTS

A digital payment system is a type of financial technology that allows individuals and businesses to make electronic transactions, removing the need for physical cash. These payments are processed quickly, speeding up transfers and purchases. Digital payments also leave a traceable record, which increases transparency and reduces the risk of fraud. The advent of digital payment methods has transformed the way consumers make transactions, significantly influencing their spending habits.

PERKS	PITFALLS
Convenience and Accessibility	Dependence on Technology
Speed	Cyber security Risks
Cost Efficiency	Digital Divide
Transparency and Accountability	Hidden costs
Eco-Friendly	Fraudulent Activities

IMPORTANCE OF DIGITAL PAYMENT SYSTEM:

- Every digital transaction is recorded, ensuring full transparency and accountability.
- Digital transactions reduce the costs associated with producing physical currency, such as coins and banknotes.

- Since digital transactions are traceable, they help to minimize corruption and bureaucratic delays.
- Cash deposits in banks make it difficult to conceal unaccounted money or evade taxes, thereby promoting proper taxation.
- Digital transactions reduce the prevalence of illegal financial activities, such as hawala transfer, by limiting the availability of physical cash.
- Digital transactions make it easier to monitor and track spending, allowing for greater insight into where and how money is spent.

IMPACT OF DIGITAL PAYMENTYS ON PURCHASE BEHAVIOR OF CONSUMER

- Increased Spending
- Impulse Purchases:
- Budgeting Challenges
- Access to Credit:
- Behavioural changes
- Consumer Confidence
- Demographic influence

OBJECTIVES OF THE STUDY

- To identify consumer preference over digital payment system.
- To study the factors driving the adoption of digital payment system.
- To analyze the correlation between the frequency of digital payment usage and the overall enhancement of the shopping experience.

RESEARCH METHODOLOGY

- Research design - Descriptive research design
- Sample design – Simple random sampling technique
- Sample Size – 262 Respondents
- Data Collection
 1. Primary data – Structured questionnaire
 2. Secondary data – Journals and Websites

DATA AND SAMPLE COLLECTION

The data collection process for the research was done through the collection of primary data (questionnaire) secondary data (journals and websites). The required data for the work was collected through a structure questionnaire which was circulated to the social media user in Chennai. The data collected was analyzed and explained the result.

TOOLS OF ANALYSIS

Analytical techniques are used to obtain the findings and conclusion information in logical sequence from the data collected. The techniques that are used for the study of percentage analysis, Friedman rank test and Correlation analysis.

LIMITATIONS OF THE STUDY

- Time is the important limitation. Due to time constraints only, limited population is taken for the study.
- The study might focus on a specific region or population, limiting its applicability to other areas.
- Only digital payment users were considered for the study.
- A small or non-representative sample size may not capture the broader consumer behavior trends across different demographic groups.

REVIEW OF LITERATURE

- **Dr. G. Bhoopathy, P. Kanagaraj (2023)** conducted the research on “The Impact of Digital Payments on Consumer Spending Habits”. For this research purpose, a descriptive and interviewed type was used to collect data. The data collected from 150 respondents. The findings of the study are to examine real-world cases of businesses or individual successfully leveraging digital payments to encourage responsible spending or financial literacy.
- **Dr. J. Elanchezhian, Ms. RacenaNelofer and Mr. Riyasdeen (2021)** carried out a study on consumer behavior regarding the adoption of digital payments, focusing specifically on the Thanjavur district. Digital payments allow both payers and payees to conveniently send and receive money. To encourage more people to use digital payments, various incentives are offered, such as waivers, discounts, coupons, and other promotions. The main goal of this study was to understand how bank customers adopt digital payment methods. The researchers designed a simple questionnaire to

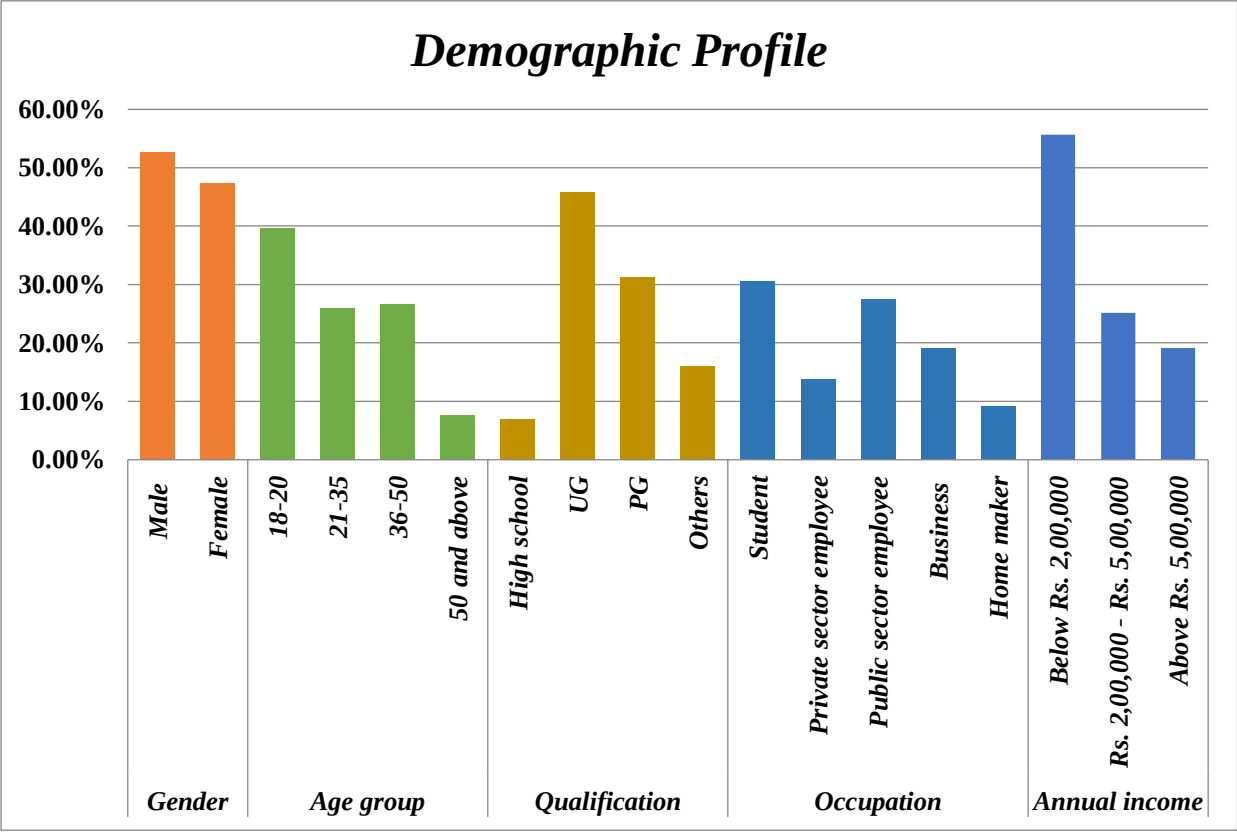
gather information directly from customers. They used both primary and secondary data to establish stronger connections among the respondents. For data analysis, they applied the one-way ANOVA test using SPSS software.

- **Ravikumar T, Suresha. B, Sriram. M, Rajesh. R (2019)** conducted a study titled "Impact of Digital Payments on Economic Growth: Evidence from India." The aim of this research was to assess how digital payments influence India's economic growth. The Indian government had promoted digitalization through initiatives like "Digital India" and demonetization, which received both praise and criticism. However, the study ultimately found that, overall, digital payments and retail electronic payments do not significantly boost India's economic growth.
- **Ashish Baghla (2018)**, conducted the study on "A Study on the future of digital payments in India". They tried to find the problems faced by people making digital payments. The objective is to find the attitude of people towards adoption of digital payments. They collected from the primary data method using questionnaires from 110 people. They conclude that the shift towards a cashless economy is a positive development, but making a full society with cashless will take considerable time.

DATA ANALYSIS

PERCENTAGE ANALYSIS

Chart 1- DEMOGRAPHIC PROFILE



Inferences:

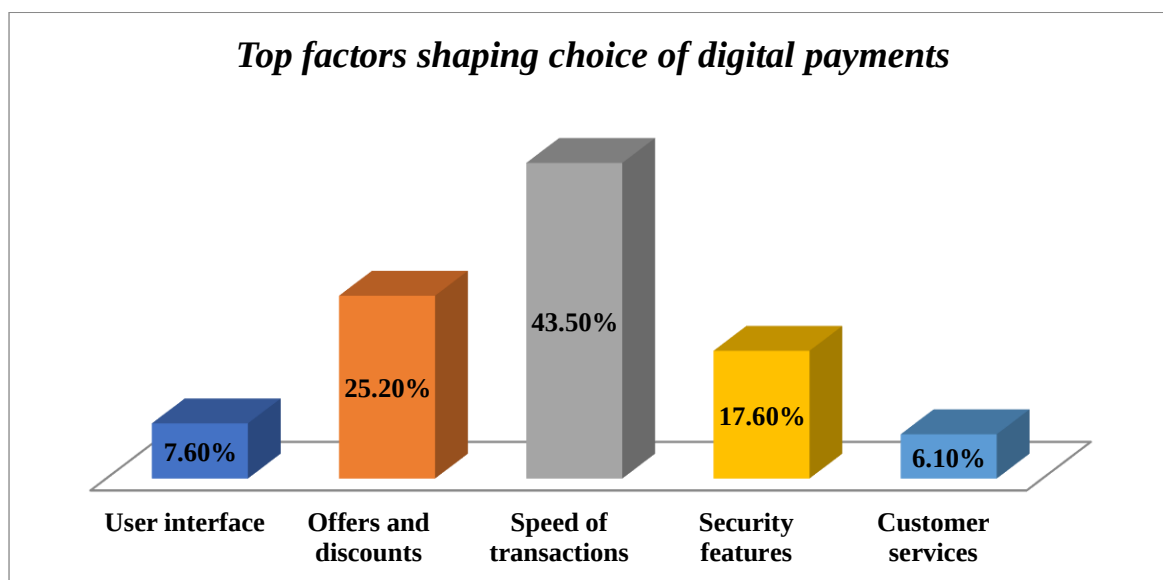
- 52.7% of the respondents belong to the male category.
- 39.7% of the respondents belong to the age group of 18-20 years.
- 45.8% of the respondents are undergraduates.
- 30.5% of the respondents belong to the category of students.
- 55.7% of the respondents’ annual income falls under the category of less than Rs. 2,00,000.

Table 1 -TOP DIGITAL PAYMENT OPTION

Particulars	Frequency	Percentage
UPI	110	42%
Cr/Dr cards	42	16%
Mobile wallets	64	24.40%
Internet banking	44	16.80%
other	2	0.80%
Total	262	100

Inference: According to the above table, 42% of the respondents primarily use UPI for their digital payment transactions. Mobile wallets are the second most preferred choice used by 24.4% of the respondents, 16.8% prefer internet banking, while debit and credit cards are used by 16% of the respondents. Lastly, 0.8% of respondents mentioned using other payment methods not listed above.

Chart 2 - TOP FACTORS SHAPING CHOICE OF DIGITAL PAYMENTS



Inference: According to the above chart, 4.35% of the respondents mainly use digital payments for the purpose of speed of transactions, 25.2% respondents use it for the offers and discounts being given by the respective digital platforms, 17.6% use it for security features, 7.6% use it for user interface and 6.10% due to the customer services being provided.

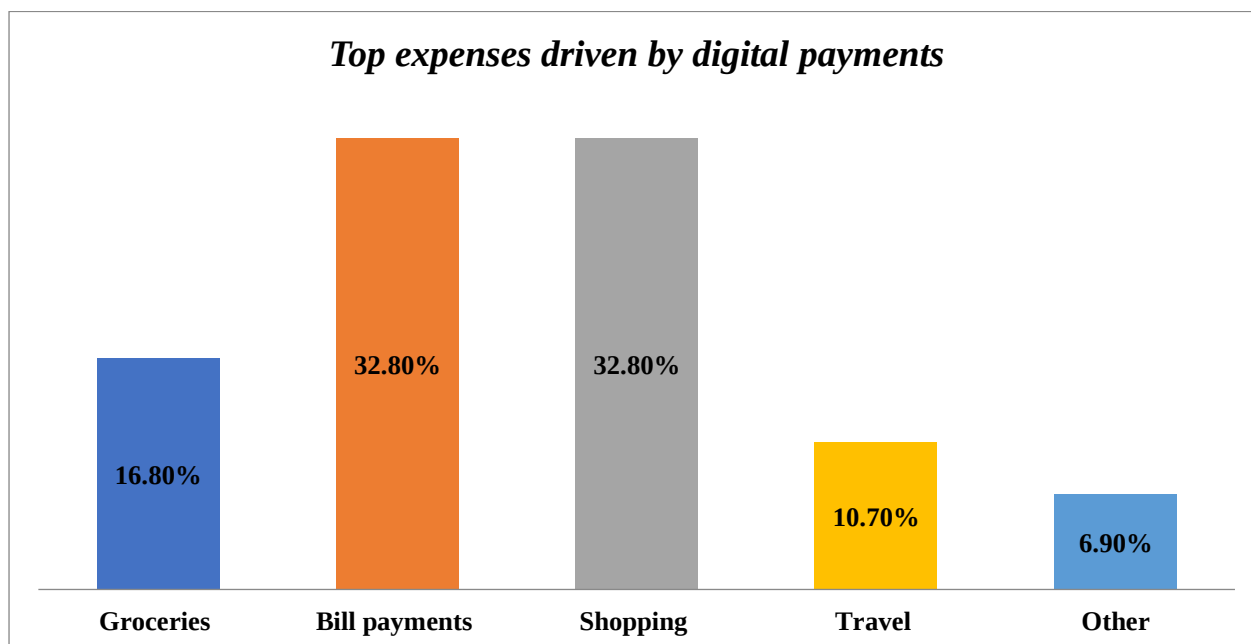
Table 2 – Friedman Rank test

Top reasons behind the shift to digital payments

Ranks		
Reason for preference over digital payments	Mean Rank	Rank
Convenience	2.83	1
Speed	3.27	2
Security	3.83	3
Reward points	3.97	4
Record keeping	4.74	5
Contactless payments	5.27	6
Budget management	5.79	7
Global accessibility	6.3	8

Inference: The results of the study indicated that “Convenience” ranked as the primary reason for the preference for digital payments. The second most reason was “Speed of transactions” followed by “Security features” and “Rewards” as other significant factors.

Chart 3 - TOP EXPENSES DRIVEN BY DIGITAL PAYMENTS



Inference: The results of the chart indicates that, 32.80% each of the respondents use digital payments for shopping purpose and bill payments, 16.80% use it for purchase of groceries, 10.74% use digital payments for travel purpose and 6.90% use it for other purposes.

Table 3 – Correlation

Frequency of digital payment usage and the overall enhancement of the shopping experience.

H₀ : There is no positive correlation between the frequency of digital payment usage and the overall enhancement of the shopping experience.

H₁ : There is a positive correlation between the frequency of digital payment usage and the overall enhancement of the shopping experience.

Correlations			
		Frequency of digital payment usage	Overall enhancement of the shopping experience.
Frequency of digital payment usage	Pearson Correlation	1	0.119
	Sig. (2-tailed)		0.177
	N	262	262
Overall enhancement of the shopping experience.	Pearson Correlation	0.119	1
	Sig. (2-tailed)	0.177	
	N	262	262

Inference: Since the value of correlation is $0.119 > 0$, there is a *positive correlation* between the *frequency of digital payment usage and the overall enhancement of the shopping experience.*

FINDINGS

- **Frequency of usage** - 39.7% of the respondents said that they will always use digital payment system for daily transactions.
- **Digital payment method** - 42% of the respondents said that most frequently they use UPI in digital payment transactions.
- **Type of expense** - 32.8% of the respondents said that they will use digital payment expenses mostly in shopping and bill payments system.
- **Key barriers** - 45% of the respondents said that poor internet connection through digital payment is the major barrier being faced.

SUGGESTIONS

- To enhance the security and biometric authentication features of digital payment apps to make them more robust.
- To expand the capabilities of digital payments to support more contactless transactions and improve global accessibility.
- To increase the availability of customer service for digital payment users. As consumers are increasingly adopting these convenient payment methods, it is important to prevent misuse. The study could recommend raising awareness about digital payments among various age groups and genders.

CONCLUSION

The research has uncovered some crucial insights about the shift to digital. Digital payments are convenient, secure, and user-friendly, which encourages consumers to make more frequent purchases and often spend more money. Mobile wallets and online banking, for instance, eliminate the hassle of dealing with physical cash, allowing people to buy things more impulsively and efficiently. In conclusion, the move to a cashless economy offers significant advantages in terms of convenience, efficiency, and economic growth. However, it is vital for stakeholders to address the associated risks. Implementing robust cyber security measures, promoting financial literacy, and effectively regulating digital payments are essential steps to maximize the benefits of this digital transition while minimizing its potential downsides. Ultimately, digital payment systems are transforming consumer behavior, presenting both opportunities and challenges in the evolving financial landscape.

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