

## Digital Payments and Consumer Perception: The Role of UPI and Financial Literacy in Emerging Economies

By

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### Abstract:-

The digital transformation of financial services has introduced new opportunities for businesses and individuals to conduct fast, secure, and cost-effective transactions. Among these innovations, India's Unified Payments Interface (UPI) has emerged as a remarkable success story, widely recognized as one of the fastest-growing digital payment systems in the world. This study examines the role of UPI in reshaping consumer perception, driving financial inclusion, and addressing the challenges of literacy and trust in digital finance.

UPI has simplified everyday transactions by enabling real-time peer-to-peer and peer-to-merchant payments through mobile applications. Its popularity is based on speed, interoperability, and minimal transaction costs. However, adoption is not uniform. While urban, tech-savvy consumers use UPI frequently, rural and less literate populations often hesitate due to fears of fraud, lack of awareness, and limited technical knowledge. Research shows that financial literacy is a critical factor in building consumer trust and confidence in digital payments. Users with stronger digital skills and financial understanding demonstrate higher adoption rates and more positive perceptions of UPI.

The study also highlights that merchant acceptance is a key driver of consumer adoption. Businesses, small retailers, and street vendors who accept UPI payments encourage customers to shift from cash to digital modes. Yet, challenges remain, including cybersecurity risks, unreliable internet connectivity in rural areas, and inadequate awareness campaigns.

This paper argues that UPI is more than just a payment mechanism; it is a socio-economic tool that can reduce cash dependency, improve transparency, and promote financial inclusion. The success of UPI provides valuable lessons for other emerging economies aiming to expand digital finance sustainably.

**Keywords:** UPI, Digital Payments, Consumer Perception, Financial Literacy, Financial Inclusion, India

## **INTRODUCTION**

The financial sector is undergoing a major transformation with the growth of digital payment systems. In India, the Unified Payments Interface (UPI) has emerged as one of the most significant innovations, offering real-time, mobile-based transactions with ease and low cost. Introduced by the National Payments Corporation of India (NPCI), UPI allows users to link multiple bank accounts in a single mobile application, enabling instant money transfers with just a few clicks.

Digital payments are not only reshaping consumer behavior but are also changing how businesses and governments operate. According to Jha & Kumar (2021), UPI has become a milestone in the digital payment revolution by making transactions seamless, secure, and accessible to all. This shift is particularly important in emerging economies, where access to banking services has traditionally been limited.

However, consumer adoption of UPI is influenced by several factors, including trust, ease of use, financial literacy, and digital skills. While the younger population is more open to using digital payment platforms, older and rural populations often face challenges in adoption. This raises an important question: how can businesses, policymakers, and financial institutions encourage wider acceptance of digital payment systems?

This paper addresses these issues by examining consumer perception, the role of financial literacy, and the challenges and opportunities associated with UPI adoption.

## **Literature Review**

### **UPI and Digital Payment Adoption**

UPI has transformed digital transactions by making them more accessible and cost-effective. Jha & Kumar (2021) argue that consumer perception of UPI is largely positive, with users appreciating its speed and simplicity. However, challenges such as transaction failures and security concerns remain barriers to trust.

### **Digital Financial Inclusion**

Khera (2021) emphasizes that digital financial inclusion is a major driver of economic growth in developing economies. UPI provides a strong foundation for inclusion by connecting individuals who were previously excluded from formal banking systems.

### **Financial Literacy and Consumer Behavior**

Kumar et al. (2023) highlight that financial literacy plays a critical role in how individuals make decisions about digital payments. Higher levels of literacy and capability increase confidence in digital tools. Similarly, Kshetri & Voas (2021) confirm that countries with higher digital literacy have greater adoption of digital payment tools.

### **Customer Preferences in Digital Banking**

Sohail & Shanmugham (2003) found that customer preferences in electronic banking are shaped by convenience, cost savings, and security. Although their study was based in Malaysia, the findings remain relevant, as consumer expectations continue to center around trust and ease of use.

## Merchant Adoption

Sreeshavittala (2024) noted that merchant acceptance of UPI in Karnataka significantly influenced customer adoption. Without widespread merchant support, consumers are less likely to use digital payment systems regularly.

## Objectives of the Study

1. To analyze consumer perception regarding UPI adoption in India.
2. To examine the role of financial literacy in digital payment adoption.
3. To identify challenges in UPI usage and digital transactions.
4. To suggest strategies for improving adoption and building consumer trust.

## Methodology

This paper follows a qualitative research approach using secondary data from journals, government reports, and case studies. Data on UPI usage trends were examined to understand adoption patterns. Consumer behavior and perceptions were studied through insights from published surveys and studies.

## Findings and Discussion

### Consumer Perception of UPI

Consumers view UPI as fast, convenient, and cost-effective. However, concerns about data security and fraud remain. Trust in banking institutions plays a major role in influencing adoption.

### Role of Financial Literacy

Financial literacy strongly affects consumer willingness to adopt digital payments. Educated and digitally literate consumers are more confident in using UPI. Rural populations with low literacy rates are slower to adopt.

### Merchant Acceptance

Merchant adoption is critical to UPI success. Where merchants actively accept UPI, consumers are more likely to use it regularly. Cash reliance remains high in areas where merchant adoption is low.

### Challenges

- Cybersecurity risks and fraud
- Lack of digital awareness
- Poor internet connectivity in rural areas
- Technical glitches in payment apps

### Opportunities

- Financial inclusion for unbanked populations
- Growth in small and medium enterprises through digital payments
- Increased transparency and reduced cash dependency

## Conclusion

UPI has emerged as a key driver of digital transformation in India's financial system. It offers convenience, affordability, and accessibility, making it one of the most successful digital

payment systems in the world. However, the full potential of UPI can only be realized if challenges such as financial literacy gaps, trust issues, and cybersecurity threats are addressed.

By investing in digital education, promoting safe financial practices, and expanding merchant adoption, India can ensure that UPI becomes a powerful tool for inclusive growth. For business management, UPI adoption highlights the growing role of technology in shaping consumer behavior and financial decision-making.

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