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Digital Payment Systems and Financial Inclusion in Developing Countries: A Systematic Literature Review

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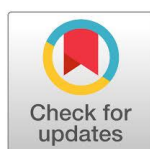
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***Abstract:** Increasingly, the global rise of Financial Technology has affected consumers' ability to access and receive Financial Services globally. Digital Payment Platforms are one of the most significant developments contributing to Financial Inclusion in developing nations where to many people do not have access to Traditional Banking. Using Digital Payment Platforms i.e., Mobile Wallets, Internet Banking, Mobile Banking Applications, and Instant Payments via Various Applications; Payment Platforms have reduced transaction costs while providing access to Financial Services for both individuals and businesses. The purpose of this literature review is to evaluate previously published academic articles related to the link between Digital Payment Platforms and Financial Inclusion in Developing Countries. The Literature Review will provide a comprehensive summary of the findings of reviewed scholarly published articles from the previous 10 years and will assess how Digital Payment Platforms Impact Financial Access, promote Economic Participation, reduce Poverty and Support Entrepreneurship...*

***Keywords:** Digital Payment System, Financial Inclusion, FinTech, Mobile Banking, Mobile wallet, Digital Financial Services.*

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INTRODUCTION

Over the past decade, financial inclusion has become one of the key aims of economic development around the world. Financial inclusion is the process of providing access to affordable, appropriate financial products and services that meet people's needs - for individuals (and businesses) to save money, to invest, to borrow, to manage their risks, and to actively engage in the economy. While progress has been made in the global financial markets, millions of people in developing countries remain unbanked or underbanked due to significant barriers to using formal financial services. Barriers, such as operational costs, distance, or geography (i.e., lack of access), and complicated paperwork, often prevent traditional banking institutions from serving rural or low-income households, women, and small businesses. Digital payment methods have provided new ways for breaking down barriers that have prevented many and people from having a banking relationship. With improvements in mobile devices, access to the Internet and developing financial technology, financial institutions and technology companies are providing new opportunities for conducting secure and efficient transactions.

LITERATURE REVIEW

The financial landscape of many developing countries is changing rapidly due to the emergence of digital payment systems. Digital payment systems have created many opportunities for financial inclusion and economic development. Financial inclusion is defined as the ability for all members of society to access affordable financial services, but in most developing countries this is only available to those with wealth or established credit. Some of the most popular types of digital payment systems are mobile banking, digital wallets, internet banking, and instant payment platforms which provide an avenue for a wider variety of people to access financial services. Many researchers have focused on examining the relationship between digital payment systems and financial inclusion. They have identified both positive elements and negative elements of digital financial services.

Most of the existing research suggests that digital payment systems have had a significant impact on improving access to financial services. In addition, many studies show that the use of digital payment systems has decreased both geographical barriers and transaction fees for people living in rural and remote areas of the world so that they can be included in the formal banking system. Demirgüç-Kunt and colleagues conducted research that showed; through these types of digital payment systems individuals have been able to significantly increase their participation in financial markets across developing economies. The researchers also discovered that those who use digital payment systems on a regular basis are likely to use formal banking institutions and to be able to access savings, loans and insurance products. The use of these digital payments has reduced the difference in access to finance between individuals that have financial services and those that do not.

CONCEPTUAL BACKGROUND

Digital payment systems are electronic ways of moving money among people, companies, and organizations via digital means. Unlike the traditional cash transaction, digital payments

make use of systems that have been made available through technology and the internet and via the use of mobile devices or other technological infrastructures such as applications or mobile payment systems and through methods such as debit and credit cards as well as payment gateways. As more people have access to smartphones and with the expansion of digital infrastructure, the use of digital payment systems has increased rapidly.

THEORETICAL FOUNDATION

Various models of theory have been we used to justify the usage and effects of the use of digital payment systems. The Technology Acceptance Model states that people are likely to accept new forms of technology once they believe that the modern technology will be useful and easy to use and may studies of digital payment acceptance and consumer behaviour have used this framework. Similarly, The Unified Theory of Acceptance and Use of Technology shows that the factors influencing technology acceptance decisions are performance expectancy, effort expectancy, social influence and facilitating conditions. Diffusion of Innovation Theory also provides a useful framework for understanding how technological innovations spread to populations over time. According to this theory, the adoption rate is affected by the amount of perceived relative advantage, compatibility, perceived complexity, perceived observability, and perceived trialability.

METHODOLOGY

A comprehensive review of past publications was a performed on how digital payment systems can create financial inclusion in developing countries. Digital payment systems have overcome the obstacles of geographical locations, lower transaction costs, and improved access to financial services, positively impacting many different areas of the world. In addition to providing more access to finance via digital financial services, digital payment systems provide improved socioeconomic results through poverty reduction, increased economic empowerment, and enhanced entrepreneurship.

DISCUSSION

However, may variables affect how successful digital payment systems are. For example, variables such as infrastructure, internet connection, mobile phone ownership, financial literacy, and regulatory support typically affect the rates at which digital payment systems are we adopted and utilized. In addition, there are ongoing issues concerning the public's trust in digital financial services, primarily due to security concerns and privacy, which can limit the public's desire to use digital payments for their everyday transactions. All these concerns show that without technological innovation, achieving universal access/inclusion to the financial system will continue to be a challenge.

RESEARCH GAPS

Despite advancements in understanding digital payment systems and financial inclusion, there are still to some literature gaps to be a filled. Existing literature focuses on short-term adoption effects, whereas little is known about long-term impacts of digital financial inclusion on household welfare and economic development. Emerging technologies such as artificial intelligence, blockchain payments and central bank digital currency are under-researched within a

context of developing countries. Further research should examine how these innovations could potentially impact financial inclusion in the future.

CONCLUSION

Digital payment systems have fundamentally transformed the way financial inclusion can be achieved within many developing nations. There is extensive research demonstrating that digital financial technologies (DFTs) improve access to formal banking services, enhance participation in economic activity, and allow individuals who previously did not have access to a bank account to participate in the national financial system. However, many of these advances face significant challenges that will continue to limit their impact on financial access and inclusion. Major challenges to adoption and sustained DFT use include digital illiteracy among potential users, inadequate physical and technological infrastructure for DFTs, cybersecurity risks, and regulatory challenges. Coordinated efforts need to be made by governments, banks (and other financial institutions), technology vendors, and development organizations for these challenges to be overcome. Investments in digital infrastructure, financial literacy education, individual protection laws, and enabling regulatory policies are needed to achieve inclusive and sustainable digital finance.

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