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Digital vs. Physical Money: Perception and Spending Behavior in a Cashless Economy

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ABSTRACT

Digitalization of financial services has been receiving utmost prominence globally with a great contribution from India standing as the top country in digital payments and receipts. The immense change with the introduction of the digital payment system (bank transfers, transactional data, POS, credit, savings, insurance, trading with the help of electronic devices) has to be addressed to understand its comprehensive effect due to various advantages they offer in making and receiving payments. Several studies show that expenditure of users of digital payments increased rapidly and expenditure patterns also changed multidimensionally. There are many factors for the increased expenditure of the users. One among such factors is how users perceive the value of digital money. This study has analyzed the perceived value of digital money i.e., the comparative value of digital money with that of physical money and its influence on spending patterns. Lesser the perceived value more will be the spending and higher the perceived value lesser will be the spending. Furtherly, focused on various tools to be employed for the optimum utilization of digital payments so that users get benefitted. The study proved that individuals crossing the budget threshold and indebted due to the over and unconscious usage of digital money and it has been suggested to impart financial education in order to promote effective and judicious utilization of money while doing digital payments. Additionally, employing breakthrough technologies to track and visualize the spending habits can capitalize fully from digitized payment platforms. Ultimately, considering all the things, digital payments are playing a great role in financial inclusion assisting the users with extended financial services like Credit, Insurance and Investing bringing greater assistance to the less privileged. Hence, optimum utilization of digital payments is necessary.

Keywords: *Perceived Value, Digital Payments, Physical Money, Digital Payments, Tendency.*

Introduction

Digital payments have evolved because of the Unified Payments Interface (UPI) revolution providing a lot of benefits by streamlining the transactions. Millions of Indians adopted digital payment apps as it was effortless to pay for nearly all things without reaching out for your wallet. Added on top of these services' tremendous array of rewards and discounts is the assurance of a secure transaction.

In accordance with a 2021 survey conducted by payment system provider ACI Worldwide and market research firm YouGov, 37% of the 1,001 Indian adults surveyed made digital payments using UPI and e-wallets at least once a day, and 77% thought that merchants and retailers were now more accepting of digital payments than they were before the pandemic. In tier 1 and urban areas, just 6% of respondents said they had never used e-wallets or UPI. Considering digital transactions, they expressed concern about internet connectivity (33%), failed transactions (36%), fraud exposure (42%), and data privacy (36%).

Paying with cashless transactions can help foster financial discipline, which may surprise you in addition to its apparent benefits. Since the majority of our payments are made digitally, these applications make it simple to track and record spending as well as analyze our spending patterns. This might be more challenging when paying with cash. These observations may aid in your budget compliance. Digital payments also pose some concerns such as unconscious spending i.e., We have a tendency to be less conscious of the money we are paying for products and services, which contributes to our tendency to spend more on cashless transactions. But when we pay with cash, we become acutely aware that we are giving up something because of the multisensory experience of pulling out a note and delivering it to someone. This causes an unpleasant emotion that behavioral economists refer to as the "pain of paying." Considering that people are inherently opposed to loss, this is a very normal reaction. Additionally, there has been a change in the attitudes and beliefs of customers toward digital payments. Concerns about security and trust have played a big role in the uptake of digital payment methods. Customers must have faith that the security of their financial data and the protection of their transactions from fraud and data breaches are critical.

Therefore, promoting wider adoption now requires an awareness of consumer trust elements as well as addressing security challenges. However, the revolution in digital payments has also brought about changes in the way providers operate and engage with customers. It is currently essential for vendors to accept digital payments in order to remain competitive and meet the changing needs of the customers they serve.

Literature Review

The study of Sumit Agarwal (2019)[1] focused on the impact of digital payments on consumer spending patterns after demonetization and found that there is a 86% decline in the cash transactions and shift towards digital payments which led to an increase in spending by 3%. The study proved that digital payments can induce overspending. Puusniekka, N. (2020)[2], studied the transition from cash to digital money from the perspective of young customers and emphasized on tools to manage digital finances. Ahn, S. Y., & Nam, Y. (2022)[3], investigated the consumer spending behaviours and found that financial knowledge helps overcome the overconsumption of money. Rafee et al. (2022)[4] conclude that digital payments, credit cards and EMIs act as hindrance for savings. Guruswamy, R. (2023)[5] highlighted that the payment mode has an impact on the spending patterns and saving habits.

Methodology

Objectives

The study has been conducted with a purpose to identify the changing spending habits due to the usage of digital payments. The following Objectives have been set to carryout the research:

- To assess the perceived value of physical money and digital money.
- To know the impact of digital payments on spending .
- **Source of the Study**

Data has been collected by framing a questionnaire through a Convenient Sampling method pertaining to the usage of Digital payments and perceptions on digital cash along with secondary data from articles, journals, surveys.

- **Scope of the Study**

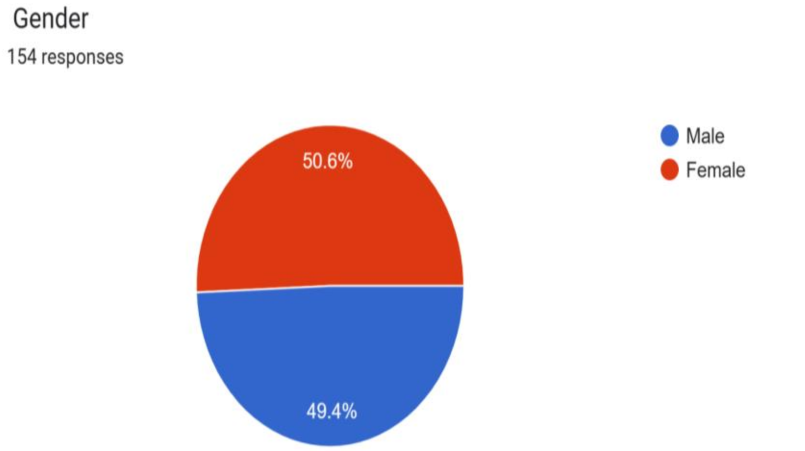
The study has been restricted only to selected parameters that align with the core objectives to ensure analytical depth and not to extend it to broader financial or economic variables.

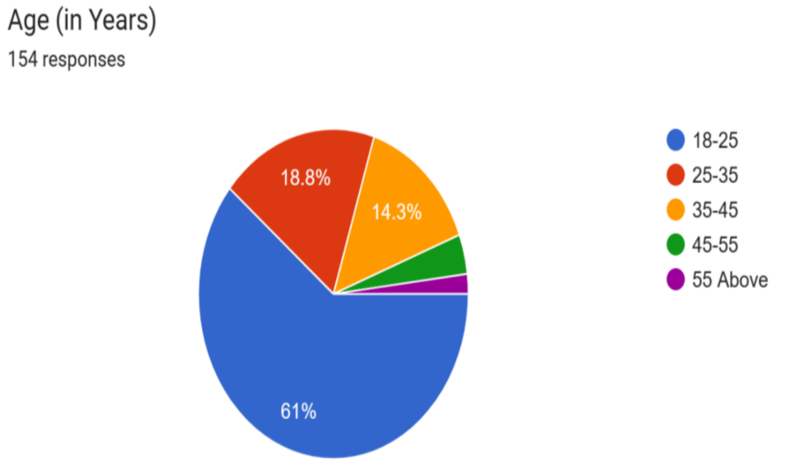
- **Sample of the Study**

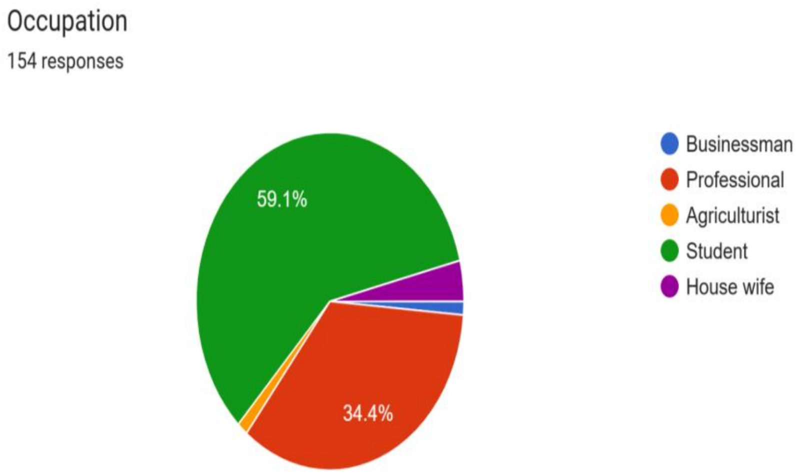
The data has been collected from 154 respondents of Kurnool District, Andhra Pradesh to identify the perceived value of digital cash and optimum utilization of digital cash.

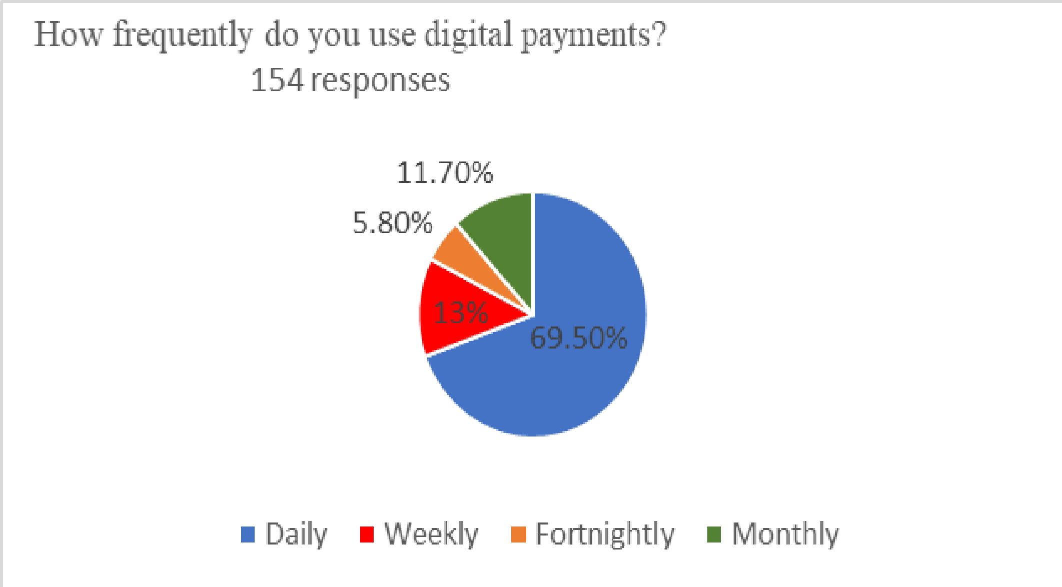
- **Evaluation**

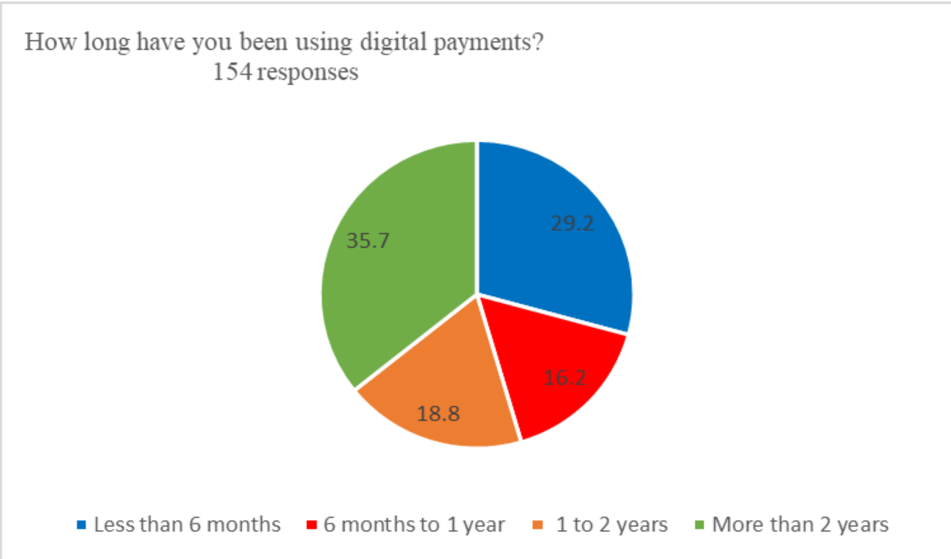
After analyzing the responses of the questionnaire, the data has been processed and visualized to interpret the outcomes of the study. The visualized pie charts are mentioned below for a clear understanding.


Gender
154 responses
50.6%
49.4%
Male
Female


Age (in Years)
154 responses
18.8%
14.3%
61%
18-25
25-35
35-45
45-55
55 Above

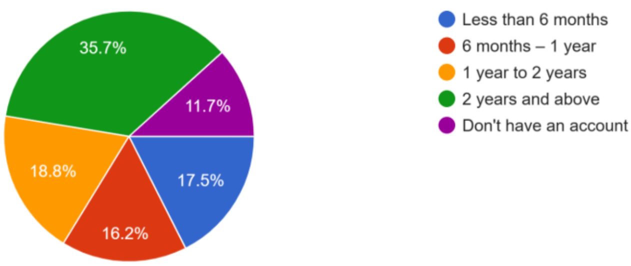

Occupation
154 responses
59.1%
34.4%
Businessman
Professional
Agriculturist
Student
House wife



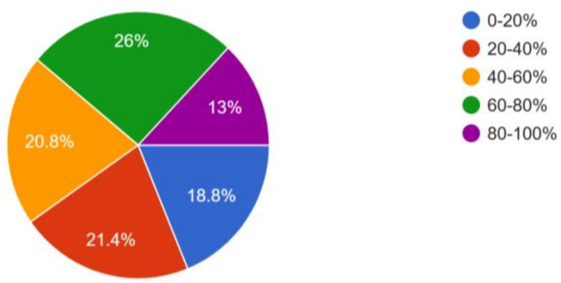


How long have you been using digital payments?

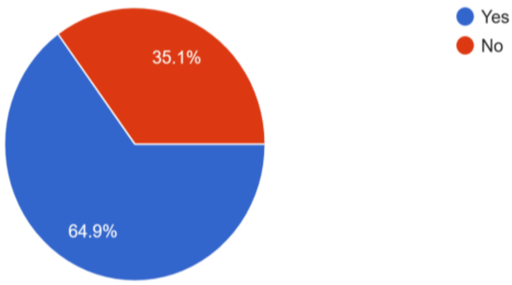
154 responses



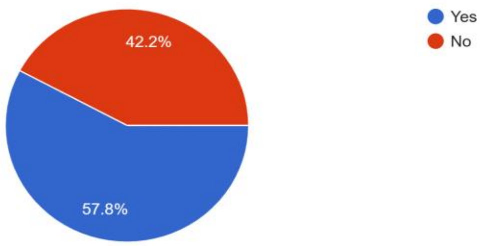
What is the percentage of payments made through Digital payments in your total payments?
154 responses



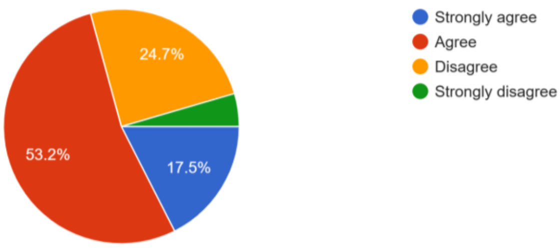
Is your total expenditure increased after you have started using digital payments?
154 responses

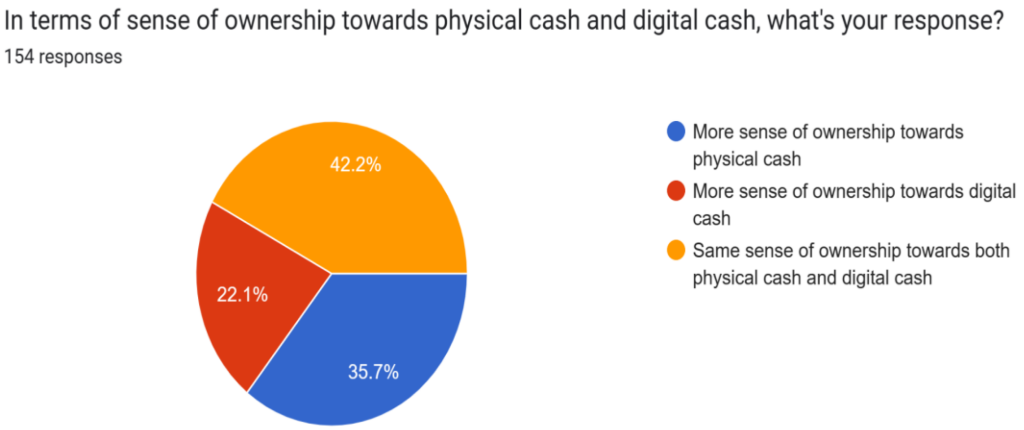


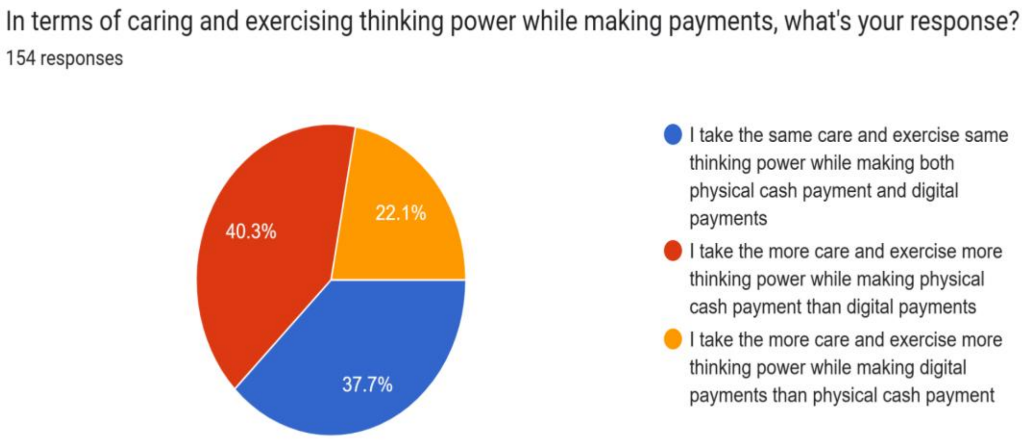
Have you faced an insufficient balance situation in your digital payment mechanism?
154 responses

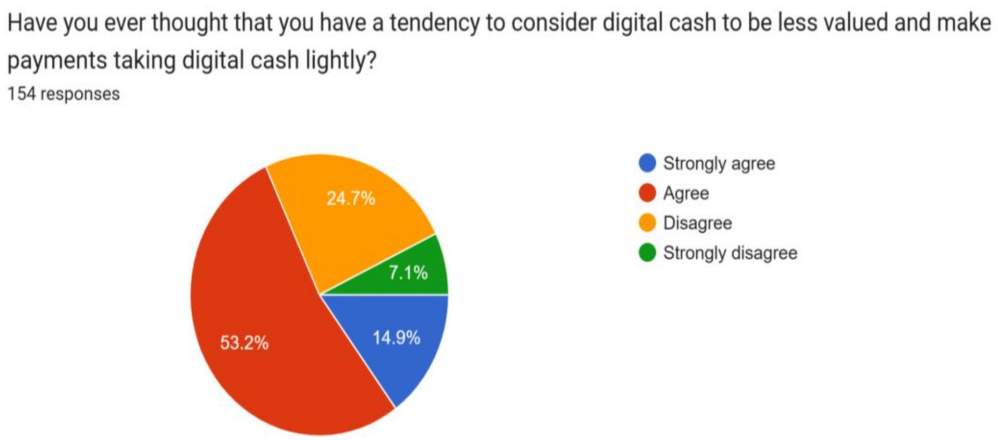


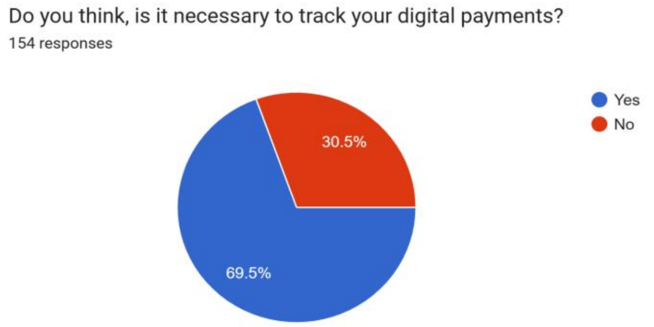
Have you felt overspending while making payments through digital payments?
154 responses

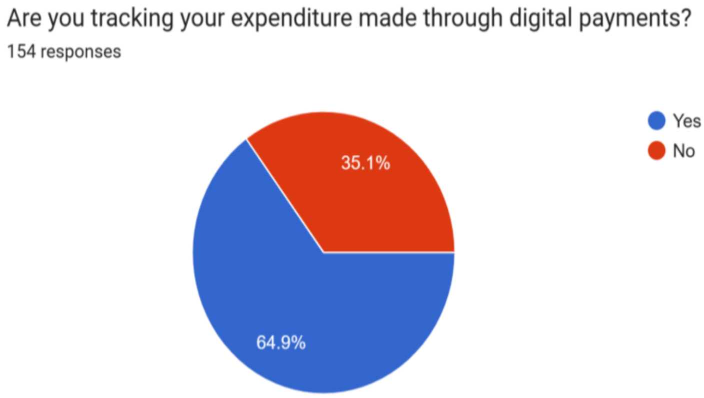


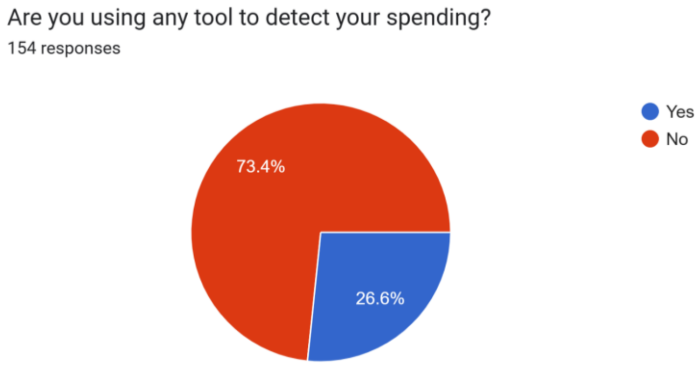

In terms of sense of ownership towards physical cash and digital cash, what's your response?
154 responses
42.2%
22.1%
35.7%
More sense of ownership towards physical cash
More sense of ownership towards digital cash
Same sense of ownership towards both physical cash and digital cash


In terms of caring and exercising thinking power while making payments, what's your response?
154 responses
40.3%
22.1%
37.7%
I take the same care and exercise same thinking power while making both physical cash payment and digital payments
I take the more care and exercise more thinking power while making physical cash payment than digital payments
I take the more care and exercise more thinking power while making digital payments than physical cash payment


Have you ever thought that you have a tendency to consider digital cash to be less valued and make payments taking digital cash lightly?
154 responses
24.7%
7.1%
53.2%
14.9%
Strongly agree
Agree
Disagree
Strongly disagree







From the graphs, it can be understood that the male respondents contribute 51% and females are 49% of the study. The respondents constitute 61% of 18-25 age group, 19% of 25-35 age, 14% of 35-45 age group, whereas a meager percent of respondents belong to the age group of 45 and above. All the respondents are highly educated, 56% are of degree qualification and 36% belong to Masters and the remaining 7% consists of Professional degrees. The sample constitutes 59% of the students, 34% professionals, a good number of housewives and a small number of agriculturists and business people.

It may be understood from the analysis that 69.5 % of the respondents are using digital payments apps daily, 13% use weekly. While 11.7% use to pay their monthly bills and only a small number of respondents use fortnightly. Of the total respondents 35.7% of the respondents are using from more than 2 years, 18.8% are using from more than one year, while 16.2% are using since more than 6 months and 17.5% started using from 6 months.

65% of respondents' total expenditure increased after they started using digital payments. 71% of respondents' felt they are overspending money while using digital payments.. Of the total respondents, 58% of them faced an insufficient balance situation which indicates lack of control over digital money and compulsive spending. On the whole it can be derived that expenditure increased due to compulsive spending and there is no control over digital money among the digital payment users.

The following conclusions have been drawn from another hypothesis framed to analyse the difference in the perceived value of physical cash and digital cash, indicating that 69% of the respondents' expressed that they undervalue digital cash. While 42% of the respondents' take the same sense of ownership for both digital and physical cash, among the remaining respondents, 35.7% take more sense of ownership towards physical cash and only 22% of the respondents' take more sense of ownership towards digital cash. It is very surprising to find that only 22% of the respondents' exercise the same care and thinking power while making physical cash payments and digital payments, 41% of the respondents' exercise more care and thinking power while making physical cash payments whereas only 38% of the respondents' exercise more care and thinking power while making digital payments. Hence it can be understood that the perceived value of digital cash is less than the physical cash due to the presence of a lesser sense of ownership among digital payment users and thereby resulting in spending more. More than half of the respondents have a tendency to perceive digital cash as less valued and not making proper decisions while making digital payments. Hence, nearly 70% of the respondents are feeling the necessity of tracking their digital payments. But only 65% of them are tracking their expenses, among them 26.6 % are using tools to track their expenses.

Recommendations

In order to minimize the defects and attain the optimum benefit of digital money, individuals should delay the purchasing decision and rethink the evaluation of the product. Allocating money for savings, maintaining a proper savings and spending ratio and keeping a check on spending limits, Safeguarding the finances by avoiding EMI traps irrespective of the mode of payments builds a strong financial discipline.

Conclusion

The study has collected the responses from 154 respondents consisting of 50% males and 50% females belonging to various age groups performing different occupations using digital payments. This study highlights that digital payment users tend to overspend and struggle with controlling their expenses, mainly due to a lower perceived value of digital cash compared to physical cash. This leads to compulsive spending behaviors and financial mismanagement. While a significant number of respondents recognize the necessity of tracking expenses, not all take adequate measures. Educating users on financial discipline and promoting the use of budgeting tools may help mitigate these challenges and encourage responsible digital spending habits.

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