# Impact of Financial Literacy on Online Transactions of Lower Income Group

Ms. Deepa Thumma
*Assistant Professor, Department of Management Studies,*
*Anil Neerukonda Institute of Technology and Sciences(A), Sangivalasa*

***Abstract*—The rise of digital technology has brought financial services to the fingertips of millions. While online transactions offer greater convenience, the benefits are not universally distributed, especially among lower-income groups. This research explores the relationship between financial literacy and online transaction behavior, specifically focusing on how it affects lower-income groups. Drawing from various studies, the article examines how the lack of financial literacy influences the capability of these groups to safely and effectively engage in online transactions. Additionally, the paper explores the role of education, government policies, and financial institutions in enhancing financial literacy among low-income populations.**

***Index Terms*—Financial Services, online transactions, financial literacy, frauds and scams, digital payments.**

## I. INTRODUCTION

Over the past decade, online financial transactions have become integral to global economies, enabling individuals to make payments, invest, save, and transfer funds through digital means. In developed and developing nations alike, mobile banking, digital wallets, and other online financial services are increasingly popular. However, the benefits of these services are not equally distributed among all income groups. While the affluent can easily access financial knowledge, lower-income groups often face barriers to understanding and using financial tools effectively.

The term "financial literacy" means understanding important money-related skills and ideas. People with basic financial literacy are generally less likely to fall for financial scams. Having a good understanding of finances can help people achieve different life goals, like saving for school or retirement, using credit wisely, and managing a business. Key parts of financial literacy include knowing how to make a budget, plan for superannuation, handle debt, and keep track of spending. One can progress their financial literacy by reading books, hearing to podcasts, following financial content online or taking guidance from a financial professional.

## II. FINANCIAL LITERACY

The ability to know and efficiently use various financial services, including budgeting, investing, borrowing, saving for the retirement and managing credit plays a serious role in how individuals navigate these digital landscapes. Without adequate financial literacy, lower-income individuals may be more vulnerable to financial mismanagement, fraud and elimination from the larger financial system. This paper examines the impact of financial literacy on online transactions, with a particular focus on its effect on lower-income groups.

## III. FOR INSTANCE

The government, Finace companies, and banks display a key role in promoting financial awareness and reducing poverty. While there is no precise theoretical background that clearly separates financial data inclusion from financial inclusion, the concept behind differentiating between the two, as illustrated in Fig. 1, is that comprehensive financial data inclusion is essential for digital finance to fully realize its possibility in achieving financial inclusion.

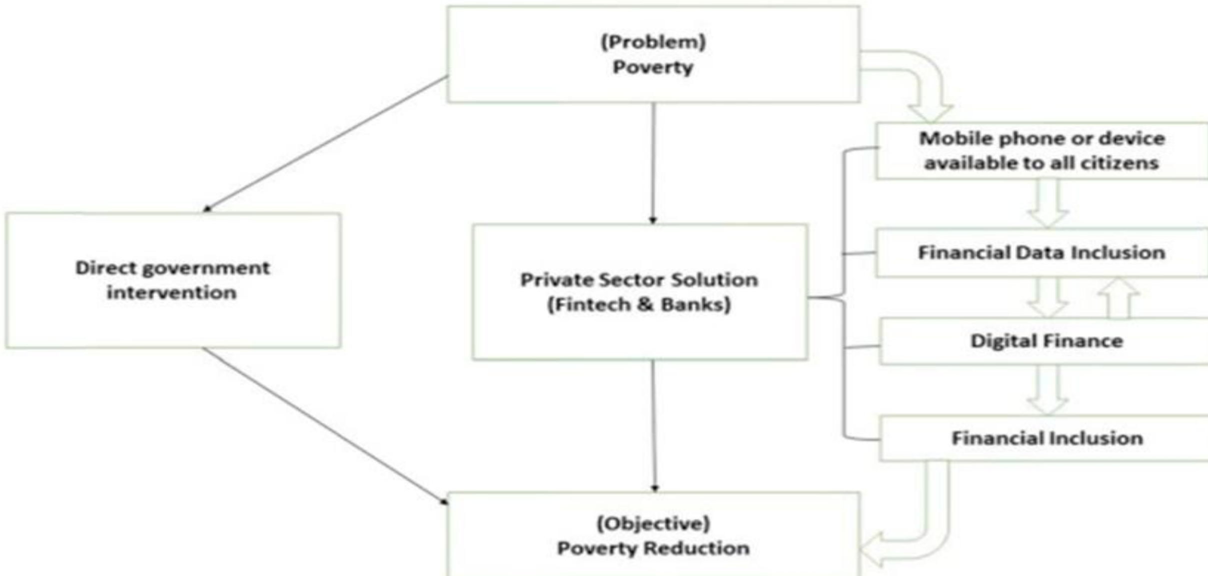


Figure -1

## IV. THEORETICAL FRAMEWORK

To study the impact of financial literacy on online transactions among low-income groups, it is vital to understand several key theories and concepts:

1. Theories of Financial Literacy: According to Lusardi and Mitchell (2014), financial literacy is a critical determinant of an individual's financial behavior. Their model highlights the relationship between education, cognitive skills, and the ability to make informed financial decisions. In the context of online transactions, this theory suggests that individuals who are financial literacy are more expected to participate in safe and well-organized online transactions.
2. Behavioral Economics: Behavioral economists like Thaler and Sunstein (2008) argue that individuals often make decisions based on cognitive biases and heuristics rather than rational calculations. Lower-income groups, who may lack adequate financial literacy, are particularly vulnerable to these biases, leading to poor financial choices in online transactions, such as overspending or falling victim to scams.
3. Digital Divide: The digital divide refers to the breakdown between those who have easy access to technology and those who do not. According to the United Nations (2019), lower-income groups are often disproportionately affected by this divide, both in terms of access to digital technologies and the knowledge required to use them effectively. This concept is crucial in understanding how lower-income individuals might struggle with online financial transactions due to limited access or understanding of digital tools.

## V. LITERATURE REVIEW

Financial literacy has been usually studied in relation to economic behavior. In their work, van Rooij, Lusardi, and Alessie (2011) found that financial literacy has a considerable effect on retirement planning and saving behavior. Their study also highlights the fact that individuals with lesser financial literacy are more expected to make poor financial decisions. This finding can be extended to online financial behavior, where low literacy may result in ill-informed decisions related to digital transactions, such as misuse of digital wallets or failure to use secure payment platforms.

Similarly, studies by Atkinson and Messy (2012) revealed that people with lower levels of financial literacy are more likely to be sufferers of scam. This is particularly concerning in the context of online transactions, where phishing scams, identity theft, and fraudulent investment opportunities are prevalent. For lower-income groups, the consequences of these scams can be devastating, leading to further financial instability.

## VI. ONLINE TRANSACTIONS AND FINANCIAL LITERACY: THE CRITICAL LINK

Financial literacy influences online financial behavior by shaping individuals' ability to engage with digital tools securely and effectively. Lower-income individuals often lack the knowledge to assess the risks involved in online transactions and may be more susceptible to the following issues:

1. Fraud and Scams: According to the Federal Trade Commission (FTC), lower-income individuals are more likely to fall victim to scams, including fraudulent online transactions. Financially literate individuals are typically more adept at identifying phishing emails, fake websites, or fraudulent offers. However, those without adequate financial knowledge may lack the skills to discern legitimate from harmful online financial opportunities.
2. Digital Payment Systems: Digital payment systems, such as PayPal or mobile banking apps, have become mainstream tools for managing personal finances. However, these systems require users to have a basic understanding of how digital wallets, online security protocols, and payment mechanisms work. Low-income individuals may not fully comprehend how to set up and secure these systems, leading to potential security risks or financial losses.
3. Over-Indebtedness: Studies by Agarwal et al. (2015) suggest that individuals with lower financial literacy are more likely to accumulate debt. In an online context, the ease of making purchases or accessing credit through online platforms can lead to impulsive spending, further exacerbating financial difficulties. Without the skills to manage debt, individuals may find themselves over-indebted, leading to long-term financial instability.

## VII. IMPACT ON LOWER-INCOME GROUPS

Lower-income groups face unique challenges when it comes to online transactions

1. Limited Access to Digital Resources: Access to smartphones, stable internet connections, and computers is still limited in many low-income communities, particularly in developing countries. According to the International Telecommunication Union (ITU), individuals in lower-income brackets are less likely to have regular access to the internet, thus limiting their ability to engage in online financial transactions.
2. Low Financial Literacy: As noted, lower-income individuals often lack financial literacy due to insufficient education or exposure to financial concepts. The lack of understanding may prevent them from making informed decisions about online transactions, from setting up secure accounts to recognizing fraudulent schemes.
3. Social and Cultural Barriers: For many individuals in lower-income communities, the concept of digital banking or online transactions is not always intuitive. Cultural factors, including distrust in formal financial institutions, may discourage the adoption of online financial tools. This reluctance is compounded by a lack of financial education and the fear of losing money due to fraudulent online transactions.

## VIII. CASE STUDY: INDIA’S FINANCIAL LITERACY INITIATIVES

India offers a compelling case study for understanding the effect of financial literacy on online transactions among lower-income groups. The Indian government has launched several financial literacy initiatives, such as the Pradhan Mantri Jan Dhan Yojana (PMJDY), which aims to promote financial inclusion. Despite these efforts, studies (e.g., Kumar & Viswanathan, 2016) have shown that financial literacy remains low, especially in rural and economically disadvantaged regions. This low level of literacy impacts the ability of low-income individuals to engage in online transactions safely.

Moreover, while mobile phones and internet access have grown significantly in India, many lower-income individuals still lack the skills to use digital payment systems effectively. The Reserve Bank of India (RBI) has supported initiatives to enhance financial literacy, but these efforts need to be paired with targeted education on digital literacy to improve the efficacy of online transactions among this demographic.

## IX. POLICY RECOMMENDATIONS

To bridge the gap in online transaction practices among lower-income groups, the following policy measures are recommended:

1. Enhanced Financial Literacy Programs: Governments and financial institutions must collaborate to create accessible financial literacy programs tailored to low-income populations. These programs should focus on both traditional financial literacy (budgeting, saving, and investing) and digital financial literacy (secure online transactions, using digital wallets, etc.).
2. Community-Based Training: Community centers, NGOs, and local governments can facilitate workshops to educate low-income individuals about the risks and benefits of online transactions. Peer-based learning can also be a valuable tool in enhancing understanding.
3. Simplified Digital Payment Systems: Financial institutions should design user-friendly digital platforms that are accessible to individuals with low literacy levels. Furthermore, these platforms should include built-in security features to protect users from fraud.
4. Policy Support and Regulation: Governments should introduce stronger consumer protection laws for online transactions and regulate digital payment platforms to ensure they adhere to safety standards. This can help mitigate the risk of fraud and enhance trust in digital financial systems.

Pros:

1. Expansion of financial services to non-financial sectors – Digital finance can extend financial services to sectors previously excluded from formal financial systems.
2. Convenient and secure banking services for low-income individuals – It provides easy access to secure banking options for individuals who traditionally have limited access to physical banks.
3. Boosts GDP in digitalized economies – By increasing aggregate expenditure, digital finance helps stimulate economic growth in countries that have embraced digital financial systems.
4. Reduces circulation of counterfeit money – The use of digital currencies and payments helps curb the circulation of fake money in the economy.
5. Greater control over personal finance – Digital platforms allow users more control and monitoring of their financial activities and spending.
6. Enables quick financial decision-making – Digital finance allows individuals and businesses to make informed financial decisions rapidly.
7. Instant payments and transactions – Digital finance systems enable users to send and receive payments within seconds, making transactions more efficient.
8. Revenue generation for digital finance providers – The digital finance ecosystem creates revenue streams for fintech companies, banks, and other financial service providers.

Cons:

1. Excludes individuals without mobile phones or digital devices – Digital finance is inaccessible to those who lack the necessary technology to participate.
2. Dependence on internet connectivity – It depends on heavily on constant internet connections, leaving individuals in areas with limited or no internet access excluded.
3. Risk of voluntary financial exclusion – The manner in which digital finance is introduced (either voluntarily or forcibly) can lead to exclusion for populations that are unprepared or lack financial literacy.
4. Vulnerabilities in digital data safety – Security breaks are common in digital finance systems, potentially reducing consumer trust in these platforms.
5. Systemic risks and black-swan events – Unforeseen events, such as financial crises or technical failures, can have catastrophic consequences for global digital financial services.
6. Transaction fees may disadvantage low-income individuals – Fee-based platforms can disproportionately benefit high- and middle-income individuals, while low-income groups may struggle to afford transaction costs.
7. Inadequate policy and regulatory frameworks – Many countries lack the necessary policies and regulations to support the full-scale adoption and safe use of digital finance services.

## X. CONCLUSION

The digital era presents significant opportunities for financial inclusion through online transactions, but these opportunities are not equally accessible to all income groups. Financial literacy plays a critical role in how lower-income groups interact with online financial tools. Without adequate knowledge, these groups are at a higher risk of financial exploitation, poor decision-making, and exclusion from the digital economy. By promoting financial and digital literacy, governments, financial institutions, and educators can empower low-income individuals to engage safely in online transactions and improve their overall financial well-being.

## REFERENCES

[1] Agarwal, S., Skiba, P. M., & Tobacman, J. (2015). "Payday Loans and Credit Cards: The Effects of Transaction Cost on Financial Decision-Making." Journal of Financial Economics.
[2] Bakken R. (1967), Money Management Understandings of Tenth Grade Students, National
[3] Business Education Quarterly, 36,6
[4] Garman, E. T., Kim, J., Kratzer, C. Y., Brunson, B. H., and Joo, S. (1999). Workplace financial education improves personal financial wellness. Financial Counseling and Planning
[5] Carapella, Francesca, and Giorgio Di Giorgio. Deposit insurance, institutions and bank interest rates, Columbia University Discussion Paper series. Columbia University Academic Commons, 2003
[6] Digital Financial Inclusion: Implications for Customers, Regulators, Supervisors, and Standard-Setting Bodies. CGAP Brief.
[7] Georgian National Public Opinion Survey on Remittances, EBRD, July 2007. International Risk Partnership (IRP). Review of Credit Info Georgia and the Georgian Economy. Tbilisi: IRP, 2017.
[8] Jing Jion Xio: Financial Literacy in Asia: A Scooping Review
[9] OECD, Recommendation on Principles and Good Practices for Financial Education and
[10] Awareness (2005)
[11] OECD (2009). Policy paper and guidance on financial education and the crisis. OECD Publishing, Paris.
[12] Lusardi, A., & Mitchell, O. S. (2014). "The Economic Importance of Financial Literacy: Theory and Evidence." Journal of Economic Literature.