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Adoption of Digital Payment System among the Youths in Pokhara Metropolitan City

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Abstract

Effective payment systems is a crucial factor of any nation's financial infrastructure. In recent years, Nepal has witnessed a significant surge in the utilization of digital payment system. The examination of the adoption of digital payment methods in Nepal is of paramount importance as it sheds light on behaviors related to financial technology that can shape the future of the country's financial system and contribute to its economic development. This study aims to explore the factors influencing the adoption intention of digital payment systems in Pokhara Metropolitan City, Nepal. The study population consists of the youths of Pokhara, with 400 respondents selected using a purposive sampling technique. Data analysis encompasses frequency distribution, exploratory factor analysis, and structural equation modeling. The exploratory factor analysis extracted six factors, which include effort expectancy, performance expectancy, security and privacy, social influence, facilitating conditions, and adoption intention. The structural equation modeling reveals that security and privacy, performance expectancy, and facilitating conditions have a significant positive impact on the adoption intention, whereas effort expectancy and social influence do not significantly affect the adoption intention of digital payments. In conclusion, the study suggests that the use of digital payment system can be increased by providing secure digital payment system, enhancing access to resources that support digital payments, and raising awareness about the benefits of digital payments among the youths in Pokhara Metropolitan City. These findings can guide policymakers in developing strategies and policies to promote the adoption of digital payments.

Keywords: adoption intention, digital payment, facilitating condition, performance expectancy, security and privacy

Introduction

Payment system plays a vital role in the financial system and efficient payment system is essential for economic development. In Nepal, the NRB Act, 2002 recognizes the importance of secure and efficient payment system. The formulation of Nepal Payment System Development Strategy (NPSDS) and the establishment of the Payment System Department at Nepal Rastra Bank (NRB) was a major milestone in this process as it provided centralized oversight and regulation of the payment system. The implementation of the Licensing Policy, Payment and Settlement Act, and Bylaw further strengthened the regulatory framework for payment system in Nepal. The licensing of various institutions, including PSPs, PSOs, commercial banks, development banks, and finance companies has increased the number of options available to consumers for electronic payments and has helped in the promotion of digital payments in the country (Nepal Rastra Bank, 2021).

The emergence of ICT and Fintech have had a significant impact on payment systems globally, including Nepal as well. The shift towards digital payments has led to faster, more efficient and cost-effective methods of making payments among individuals and organizations (Premchand & Choudhry, 2015). The use of digital payment systems has seen significant growth in Nepal in recent years, as evidenced by data from Nepal Rastra Bank (Nepal Rastra Bank, 2021). Various digital payment platforms such as PSOs, IPS, connectIPS, Mobile Banking, Internet Banking, Wallets, and QR Code have made it easier for consumers to make payments quickly and safely. The increase in digital transactions from NPR 712 billion in 2018 to NPR 1,559 billion in 2019 is a clear indication of the growing popularity and adoption of digital payments in Nepal (Shrestha, 2021). Companies like e-Sewa and IME Pay have also played a major role in this shift by simplifying the process of digital transactions and making it more accessible to a wider range of users. The significant growth in the number of people using these platforms during the COVID-19 pandemic is a testament to the growth potential of digital payment platforms in Nepal (Shrestha, 2021).

The convenience of cashless payment methods has been a major factor driving the shift towards digital transactions. Similarly, the COVID-19 pandemic has played a crucial role in accelerating the trend of digital payments. People have become more cautious about handling physical cash due to the fear of contracting the virus through it. The use of cashless payment options including mobile banking, e-wallets, and contactless payments. have become more prevalent as they provide a safer alternative to traditional cash transactions. Additionally, the widespread adoption of mobile banking and e-wallets has also been facilitated by the increasing availability of smartphones and internet access in many countries, as well as the growth of digital financial services providers such as Fintech companies (Shrier, 2022).

Digital payment system offers unparalleled convenience and speed in conducting transactions, allowing users to make payments and transfers with ease. They eliminate the need for physical cash, reducing the risk of loss or theft, and they provide a seamless and efficient way to manage finances. Additionally, digital payment system enables online shopping, subscription services, and contactless payments, making them incredibly versatile and adaptable to modern lifestyles. Despite their numerous benefits, the adoption of digital payment systems varies across countries due to varying factors and contextual differences.

Nepalese financial sector has been promoting Electronic Payment Services (EPS) in Nepal in recent years, but usage of these services has not seen a corresponding increase. It is very important to understand the factors affecting adoption of digital payment system in Nepalese context for understanding the behaviours related to financial technology that can shape the future of the country's financial system and contribute to its economic development. In this context, a study that focuses on young people in Pokhara, who embrace digital payment system can provide valuable insights into the determinants of their adoption intentions. This study examines the

impact of factors such as security and privacy, effort and performance expectancy, social influence, and facilitating conditions on adoption intention among the youths in Pokhara.

Methodology

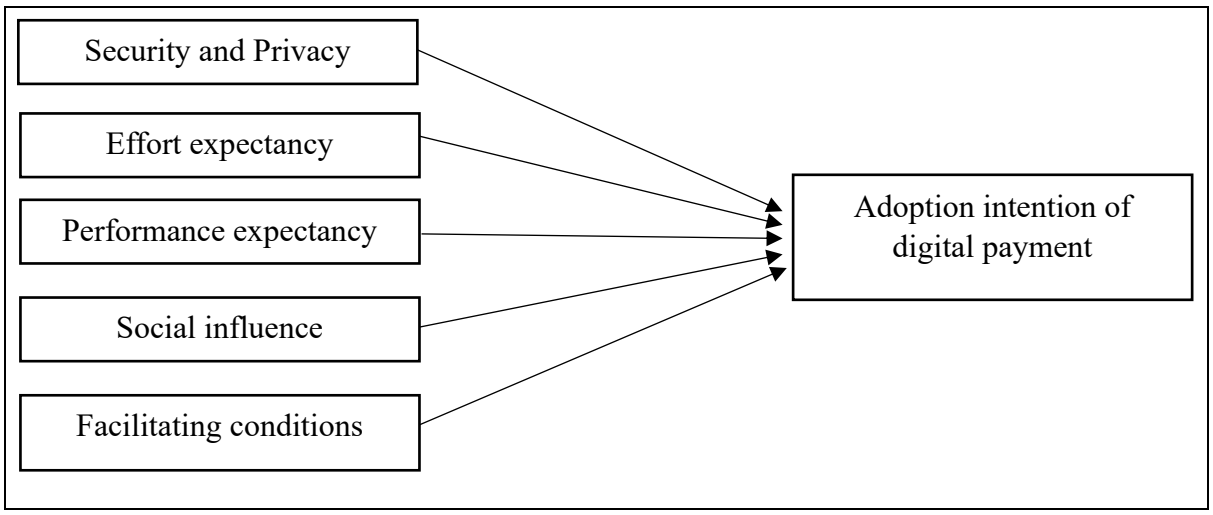
E-payment refers to payments done without the use of paper instruments, such as online credit card transactions, e-wallets, e-cash, online stored value systems, digital accumulating balance systems, digital checking payment systems, and wireless payment systems (Kumar & Chaubey, 2017). To explain user adoption and acceptance of new technology, numerous theories and models have been established, including the innovation diffusion theory (IDT) (Lou & Li, 2017), technology acceptance model (TAM) (Lule et al., 2012), theory of reasoned action (TRA) (Almajali et al., 2022), and unified theory of acceptance and use of technology (UTAUT) (Sarfaraz, 2017). Among them, the UTAUT theory is a comprehensive and integrated model as it synthesizes different models such as TRA, TAM, motivational models, social cognitive theory, innovation diffusion theory, and theory of planned behaviour (Dwivedi et al., 2019). UTAUT theory posits that four constructs drive intention and use of technology: performance expectancy, effort expectancy, social influence, and facilitating factors. These constructs can be used to understand and predict user adoption of e-payment systems and to design effective strategies for promoting the adoption and usage of e-payment systems (Junadi & Sfenrianto, 2015b).

Several studies on adoption intention of new technologies have been undertaken, including e-payment system. Amoroso and Magnier-Watanabe (2012) discovered that personal information security and privacy had a favourable effect on behavioural intention. Teoh et al. (2013) carried out a study in Malaysia to find out the factors impacting customer's perceptions of electronic payment (e-payment). The study revealed that perceived advantages, self-efficacy, and convenience of use have a substantial impact on customer's attitude regarding e-payment. Likewise, Junadi and Sfenrianto (2015a) conducted a study to identify the major factors affecting Indonesian consumers' intentions to utilize electronic payment. The study found culture, effort expectancy, performance expectancy, perceived security and social influence have substantial impact on adoption of digital payment. Nguyen and Huynh (2018) found perceived risk and trust had a substantial effect on e-payment adoption. Similarly, Salloum et al. (2019) examined the adoption of e-payment system in six different universities in the United Arab of Emirates using five different factors including performance expectancy, perceived risk, security, trust and benefit. The study discovered that performance expectancy and perceived benefit have positive effect on students' intention to adopt e-payment while perceived risk and security negatively affect e-payment adoption. Furthermore, Phan et al. (2020) conducted research to determine factors influencing people's willingness to use e-wallets in Vietnam using the Unified Theory of Acceptance and Use of Technology (UTAUT) and the Theory of Perceived Risk (TPR). The study found that people's perceived performance of the technology, social influences, and facilitating conditions are key factors in determining their intention to use e-wallets. Alnemer (2022) investigated the determinants of digital banking adoption in Saudi Arabia using extended TAM. The study showed perceived ease of use and perceived usefulness have a significant and positive effect on digital banking adoption in the study area. Similarly, there have been several research studies conducted in Nepal regarding the adoption of digital payment methods. Manandhar and Kohsuwan (2022) conducted a study in Kathmandu focusing on the factors influencing the adoption of mobile payment services. Their research utilized the UTAUT model and concluded that facilitating conditions, effort expectancy, performance expectancy, and social influence have a significant positive impact on consumers' intention to adopt mobile payment services. In a separate study by Maharjan et al. (2022) in Nepal, the focus was on the use of FinTech applications for online purchases. The findings indicated that perceived value, perceived ease of use, attitude, and trust play pivotal role as drivers in the adoption of digital technology for online transactions. Furthermore, Tamang et al. (2021) found that in Nepal, the perceived risk associated with COVID-

19 was a significant motivating factor for the adoption of digital payment methods. Previous studies have found that factors such as personal information security and privacy, perceived risk and trust, advantages, ease to use, culture, effort expectancy, performance expectancy, perceived security, and social influence have a substantial impact on e-payment system adoption.

Based on previous literature, following conceptual framework is proposed for this study. In this study, five independent variables namely – security and privacy, effort expectancy, performance expectancy, social influence and facilitating conditions and one dependent variable, adoption intention of digital payment are considered. Figure 1 presents the model of this study.

Figure 1
Proposed Model for the Study



Study Area and Data

The study is quantitative in nature and follows a descriptive and analytical research design. The population consists of the youths of Pokhara metropolitan city of Nepal (16 to 40 years of age, as defined by the National Youth Council Act, 2072). Pokhara Metropolis, being a significant urban city in Nepal, was selected as a case for this study and 400 respondents were chosen at five percent margin of error using Sloven's method for determining sample size. As youths constitute a significant portion of the population in most areas, this study followed purposive sampling technique, where only youths from different professions were considered. A structured questionnaire was used to gather the data, and descriptive and inferential statistics were used to analyse it. The descriptive analysis includes the use of frequency distribution to analyse the demographic characteristics of the respondents. The inferential analysis includes exploratory factor analysis (EFA) to extract the factors that influence the adoption of digital payments and structural equation modelling (SEM) to see the impact of independent variables on adoption of digital payment. The study also assesses the reliability and validity of the measures. Various methods such as Cronbach Alpha, Composite Reliability (CR), Average Variance Extracted (AVE), and Fornell and Larcker criteria are used to ensure that the data collected is accurate and consistent.

Results

Demographic Profile of the Respondents

The demographic characteristics is given in Table 1. It is measured in terms of gender, age group, marital status, profession, education, monthly income and monthly expenditure.

Table 1
Demographic Characteristics

Demographic variables	Categories	Freq. (%)	Demographic variables	Categories	Freq. (%)
Age group	16 to 25 years	125 (31.3)	Gender	Male	218 (54.5)
	26 to 35 years	181 (45.3)		Female	182 (45.5)
	More than 35	94 (23.5)			
			Marital status	Married	243 (60.8)
Profession	Private Sector	121 (30.3)		Unmarried	149 (37.3)
	Public Sector	68 (17.0)		Others	8 (2.0)
	Retired	8 (2.0)			
	Student	78 (19.5)	Monthly income in NPR	Up to 20,000	65 (16.3)
	Self-employed/ business	80 (20.0)		20,001 to 40,000	106 (26.5)
	Does not work	25 (6.3)		40,001 to 60,000	110 (27.5)
	Others	20 (5.0)		Above 60,000	119 (29.8)
Education status	Primary	21 (5.3)	Monthly expenditure in NPR	Up to 20,000	166 (41.5)
	High school	180 (45.0)		20,001 to 40,000	160 (40.0)
	Bachelors	121 (30.3)		40,001 to 60,000	60 (15.0)
	Masters and above	78 (19.5)		Above 60,000	14 (3.5)
Total		**400 (100.0)**	**Total**		**400 (100.0)**

Table 1 reveals that more than half of the respondents are males (54.5%) and the remaining 45.5% are females. With respect to age, most of the participants are between the age of 26-35 years (45.3%). The next largest group is those between 16-25 years (31.3%) and remaining are over 35 years (23.5%). With regard to marital status, the majority of the respondents (60.8%) are married, 37.3% are unmarried, and 2% are widows. In terms of profession, 47.3% of the respondents work in the private or public sector, 20% are businessman, 19.5% are students, 2% are retired professionals, 5% are from other professions (including farmers, foreign employment, housewives, and medical representatives), and 6.3% do not work. In terms of education, 45% of the respondents have completed high school, 30.3% have completed a bachelor's degree, 19.5% have completed a master's degree or higher, and 5.3% have completed primary level education. Additionally, majority of them have monthly income more than Rs. 60,000 and majority of them have monthly expenditure up to Rs. 20,000.

These demographic factors, such as age, gender, marital status, profession, education, income, and expenditure are crucial variables that can help researchers and policymakers better understand the trends in digital payment adoption within this specific population.

Exploratory Factor Analysis (EFA)

The EFA was run with 31 items related to the digital payment system adoption. The communalities of FC6 was found to be less than 0.40, which is considered as a minimum acceptable value for sample size above 200 (Hair et al., 2019). This item was removed, and further analysis was conducted. After removing these items, the loading of some other items (PE3, FC3, FC4, and AI1) were found to be in more than two factors, these items were also removed. Finally, the EFA result was found with 26 items. The result of EFA is presented below.

Table 2
KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		0.912
Bartlett's Test of Sphericity	Approx. Chi-Square	5018.231
	Df	325
	Sig.	0.000

Table 2 shows the Kaiser-Meyer-Olkin (KMO) test results and the Bartlett's test of sphericity results for the data. The KMO test measures the appropriateness of data for factor analysis and the minimum acceptable value is 0.5 (Kaiser, 1974). The KMO value is 0.912 which indicates that the data is fit for factor analysis. The Bartlett's test of sphericity has a significant result at the 1 percent level of significance indicates that there are correlations between variables, providing strong support for factor analysis (Hair et al., 2019).

Table 3
Communalities

Items	Initial	Extraction
SP1	1.00	0.625
SP2	1.00	0.648
SP3	1.00	0.540
SP4	1.00	0.591
SP5	1.00	0.465
SP6	1.00	0.558
EE1	1.00	0.718
EE2	1.00	0.715
EE3	1.00	0.657
EE4	1.00	0.749
EE5	1.00	0.710
PE1	1.00	0.512
PE2	1.00	0.600
PE4	1.00	0.666
PE5	1.00	0.587
SI1	1.00	0.504
SI2	1.00	0.561
SI3	1.00	0.589
SI4	1.00	0.627
SI5	1.00	0.562
FC1	1.00	0.693
FC2	1.00	0.765
FC5	1.00	0.741
AI2	1.00	0.788
AI3	1.00	0.820

AI4	1.00	0.778

Table 3 shows the results of communalities of the measurement scale. The communalities values lie from 0.465 to 0.820, which are all more than the minimum acceptable value of 0.40 for sample size above 200 (Hair et al., 2019). This suggests that the items in the scale are measuring the intended construct effectively and that the factor analysis can be performed with confidence.

Table 4
Result of Exploratory Factor Analysis (EFA)

Factors	Items	Loadings	% of variance	Cronbach alpha
Effort Expectancy (EE)	EE1	.776	13.17	0.88
	EE2	.750		
	EE3	.686		
	EE4	.675		
	EE5	.777		
Security and privacy (SP)	SP1	.729	12.95	0.83
	SP2	.774		
	SP3	.656		
	SP4	.706		
	SP5	.553		
	SP6	.681		
Social influence (SI)	SI1	.668	11.19	0.79
	SI2	.704		
	SI3	.743		
	SI4	.749		
	SI5	.650		
Facilitating condition (FC)	FC1	.736	9.19	0.84
	FC2	.689		
	FC5	.741		
Adoption intention (AI)	AI2	.781	9.02	0.87
	AI3	.803		
	AI4	.787		
Performance expectancy (PE)	PE1	.579	8.97	0.74
	PE2	.690		
	PE4	.693		
	PE5	.660		

The result of factor analysis is given in Table 4. The factor solution is extracted using varimax rotation having an eigenvalue greater than one. This gives six factors explaining 64.50 % of variance. The first factor, effort expectancy, comprises of five items (EE1 to EE5), explains 13.17 % of variance. The second factor, security and privacy, comprises of six items (SP1 to SP6), explains 12.95 % of variance. The third factor, social influence, comprises of five items (SI1 to SP5), explains 11.19 % of variance. The fourth factor, facilitating condition, comprises of three items (FC1, FC2, and FC5), explains 9.19 % of variance. The fifth factor, adoption intention, comprises of three items (AI 2 to AI4), explains 9.02 % of variance and the sixth factor, performance expectancy, comprises of four factors (PE1, PE2, PE4, and PE5), explains 8.97 % of variance. The Cronbach's value of all factors is more than the minimum desirable value of 0.70. This provides the evidence that the measurement scales are highly reliable.

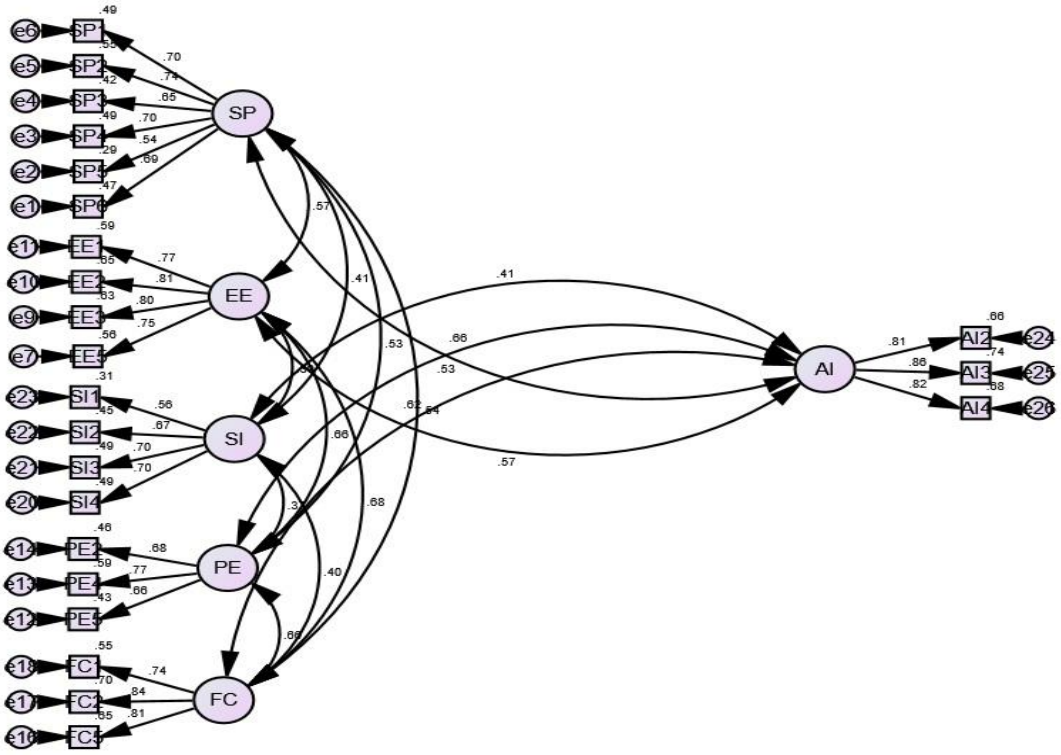
Structural Equation Modelling (SEM)

This comprises the measurement model as well as the structural model. Confirmatory factor analysis (CFA) is used in measurement model to evaluate the goodness of fit. After performing the CFA, structural model is run to see the impact of independent variables on adoption intention.

Confirmatory Factor Analysis (CFA)

Here, the model fitness was checked with CMIN/DF, GFI, NFI, CFI and RMSEA. Similarly, the reliability was checked using Cronbach alpha and composite reliability (CR), convergent validity was evaluated using average variance extracted (AVE), and discriminant validity was assessed using Forenell and Lacker's criteria. Initially, confirmatory factor analysis was run with all 26 items extracted from EFA, however, model fitness was achieved with 20 items only. The value of CMIN/DF is 1.834 (< 3), GFI is 0.922 (> 0.90), NFI is 0.908 (> 0.90), CFI is 0.956 (> 0.90) and RMSEA is 0.046 (< 0.50). All the models fit indices met the required criteria. This gives the strong evidence for goodness of fit. The measurement model is provided in Figure 2.

Figure 2
Measurement Model



The results of the CFA presented in Table 5 indicate that the factor loadings of all items in the given constructs are more than 0.50 and are significant at a 1 percent level of significance. This suggests that the items in the constructs are measuring the intended construct effectively. Additionally, the Cronbach's alpha and CR values are above 0.70, which is considered desirable and provide evidence for the reliability of the model. Furthermore, the AVE values of three constructs are more than 0.50 and the remaining three constructs are above 0.40, which is also acceptable when the CR value is more than 0.70 (Hair et al., 2019). This provides evidence for convergent validity, indicating that the constructs are measuring the same underlying construct, which is good.

Similarly, table 6 presents the square root of AVE (diagonal bold) value and correlation value among the constructs. All the correlation values are less than the square root of AVE. It provides the strong evidence for presence of discriminant validity in the model.

Table 5
Result of CFA, Reliability and Validity Test

Factors	Items	Loading	C.R.	P-value	Cronbach alpha	CR	AVE
Security and privacy (SP)	SP6	0.687	….	….	0.83	0.83	0.451
	SP5	0.539	9.597	***			
	SP4	0.697	12.09	***			
	SP3	0.651	11.398	***			
	SP2	0.739	12.702	***			
	SP1	0.699	12.12	***			
Effort Expectancy (EE)	EE5	0.745	….	….	0.862	0.861	0.609
	EE3	0.796	15.394	***			
	EE2	0.808	15.619	***			
	EE1	0.770	14.88	***			
Performance expectancy (PE)	PE5	0.659	….	….	0.739	0.744	0.493
	PE4	0.767	11.654	***			
	PE2	0.677	10.81	***			
Facilitating condition (FC)	FC5	0.806	….	….	0.84	0.838	0.633
	FC2	0.836	17.048	***			
	FC1	0.742	15.144	***			
Social influence (SI)	SI4	0.697	….	….	0.75	0.752	0.434
	SI3	0.703	10.788	***			
	SI2	0.667	10.47	***			
	SI1	0.556	9.099	***			
Adoption intention (AI)	AI2	0.810	….	….	0.87	0.871	0.692
	AI3	0.859	18.49	***			
	AI4	0.825	17.78	***			

Table 6
Result of Forenell Lacker's Criteria

	SP	EE	PE	FC	SI	AI
SP	**0.672**					
EE	0.567	**0.780**				
PE	0.530	0.656	**0.702**			
FC	0.536	0.683	0.660	**0.796**		
SI	0.414	0.391	0.368	0.397	**0.659**	
AI	0.527	0.573	0.663	0.618	0.407	**0.832**

Structural Model

The structural model was run to study the impact of independent variables on the adoption intention of a digital payment system. All the model fitness criteria has met, as the values of CMIN/DF is 1.834 (< 3), GFI is 0.922 (> 0.90), NFI is 0.908 (> 0.90), CFI is 0.956 (> 0.90) and

RMSEA is 0.046 (< 0.50). This indicates that the structural model is good and can be used to make valid inferences about the variables' relationships. Figure 3 shows a path diagram that illustrates the links between the variables in the model.

Figure 3
Structural Model

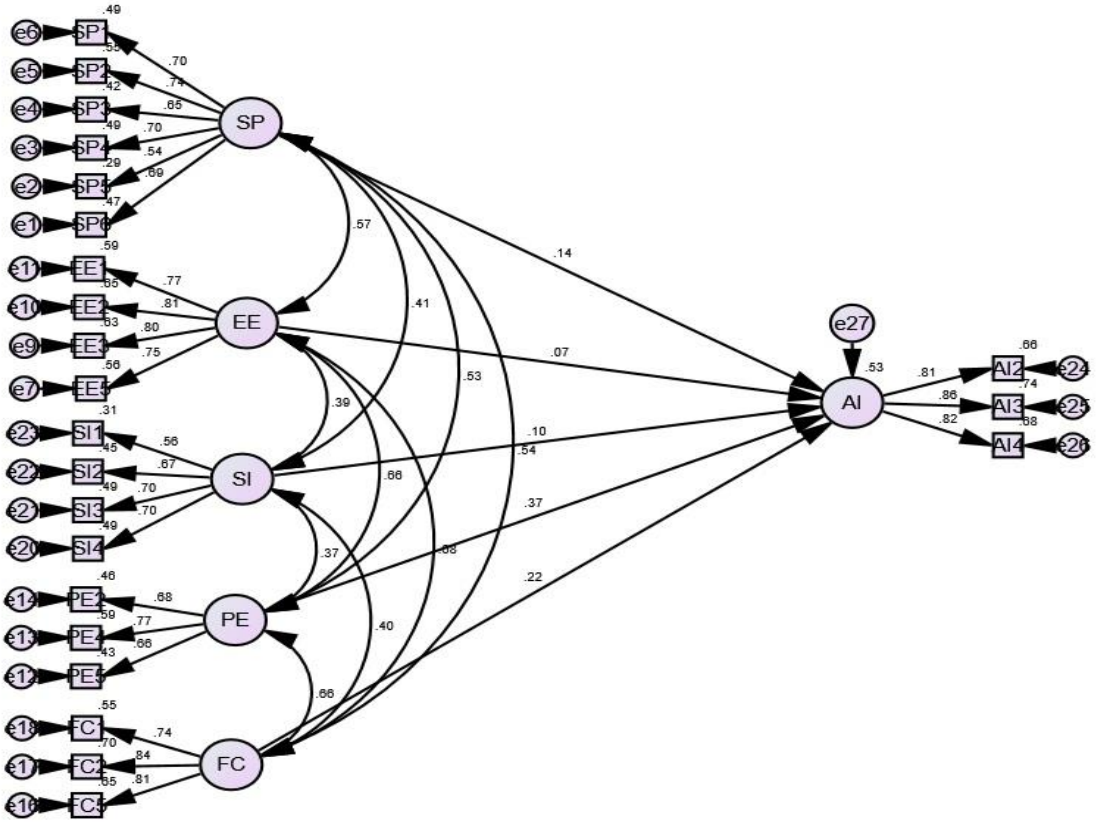


Table 7
Result of Hypothesis Testing

Relationship	Estimate	S.E.	C.R.	P-value	Remarks
SP ---> AI	0.136	0.071	2.135	0.033	Rejected
EE ---> AI	0.068	0.078	0.876	0.381	Not rejected
SI ---> AI	0.104	0.062	1.838	0.066	Not rejected
PE ---> AI	0.365	0.101	4.25	***	Rejected
FC ---> AI	0.216	0.071	2.739	0.006	Rejected

The path coefficients' results are shown in Table 7, and they indicate that security and privacy (Beta = 0.136, t-stat = 2.135, P < 0.05), performance expectancy (Beta = 0.365, t-stat = 4.25, P < 0.05), and facilitating condition (Beta = 0.216, t-stat = 2.739, P < 0.05) have a significant positive impact on the adoption intention of digital payment. The results also show that effort expectancy and social influence have no significant impact on the adoption intention of digital payment (P > 0.05). Additionally, the results indicate that performance expectancy has more impact on the adoption of digital payment compared to facilitating condition and security and privacy.

Discussion

The study aimed to identify the factors affecting adoption intention of digital payment systems among the youths in Pokhara metropolitan city, Nepal. Five factors were considered in the model. The structural equation modelling results found that security and privacy had a significant positive impact on the adoption intention of digital payments in Pokhara. This finding is consistent with previous studies by Amoroso and Magnier-Watanabe (2012), Junadi and Sfenrianto (2015a) who have also found that security and privacy in personal information have a positive effect on behavioral intention. Security and privacy of personal information is crucial for the adoption of digital payment systems. When users feel that the digital payment system is less risky and that their personal information is secure and will not be misused, they are more likely to adopt it.

The study also found significant positive impact of performance expectancy on the adoption intention of digital payments. This finding is consistent with previous studies by Junadi and Sfenrianto (2015a), Salloum and Al-Emran (2018), and Phan et al. (2020) who discovered a positive impact of performance expectancy on use of e-payment systems. People are more likely to accept new system if it is more efficient than existing one. Those who believe that digital payment allows for faster transactions, save time, and reduce the need to visit vendors frequently are more likely to adopt digital payment systems. This suggests that highlighting the efficiency of digital payments could be an effective strategy for promoting their adoption among the youths in Pokhara, Nepal.

Similarly, the study found a significant positive impact of facilitating conditions on the adoption intention of digital payments. This finding is similar to Phan et al. (2020), who also discovered that facilitating conditions strongly forecast behavioral intention to use e-wallets for payment. Digital payment is only possible when individuals have access to the necessary technology, such as smartphones or other devices that support digital payments, have the knowledge to use them and have resources such as internet access and e-wallets or other apps that support digital payments. However, the study found no significant impact of effort expectancy and social influence on the adoption intention of digital payments in Pokhara. This suggests that security and privacy of personal information, efficiency of digital payment system, and access to technology and resources are important factors related to digital payment adoption.

Conclusion

As Nepal's payment system transitions from cash to digital forms, it is critical to understand the elements that drive digital payment systems in the country. This study examined the impact of five independent factors on the adoption of digital payment systems in Pokhara metropolitan city, Nepal. It found that security and privacy, performance expectancy, and facilitating conditions have a positive impact on the adoption of digital payment systems. Among these, performance expectancy had the greatest impact. The study concludes that the use of digital payment system can be increased by providing secure digital payment systems that are less risky, protects personal information, and does not misuse personal information for other purposes. Additionally, the adoption of digital payment system can be increased by expanding access to the necessary resources that support digital payments, sharing knowledge on how to use them, and raising awareness on how digital payment is more efficient than cash payments among the youths in Pokhara metropolitan city.

The study suggests that service providers should increase awareness of digital payment system and encourage their use by providing incentives such as cash back, prizes, reward points, and other rewards for using digital payment systems. Furthermore, service providers should also provide the necessary resources needed for digital payments, such as free internet service. The study also suggests that policy makers should develop and implement policies that protect personal

information and ensure the security of digital transactions. This would help to increase the trust and confidence of users in digital payment system and encourage greater adoption among the youth in Nepal.

This study is based on a sample of youth respondents from one metropolitan city in Nepal, and the findings may not be generalizable to other regions or demographic groups. Additionally, the sample size of 400 youth respondents may not be sufficient to generalize about the whole population. Therefore, it might be beneficial to perform similar studies in other parts of the country, such as other cities or rural areas, to validate the findings and to understand the factors influencing the adoption of digital payment system in different contexts. This could also help to inform the development of policies and strategies to promote their use.

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