

Economics and Public Policy for India in the Digital Century: An Empirical Study of Retail Investors' Adoption of Digital Financial Platforms

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Abstract

Public policy, financial markets, and individual economic behavior have all seen substantial changes as a result of India's economy's swift digital revolution. The financial system's accessibility, efficiency, and inclusivity have changed as a result of digital public infrastructure like Aadhaar, the Unified Payments Interface (UPI), and online investment platforms. The impact of digital financial platforms on the involvement, risk perception, and investment decision-making of Indian retail investors is investigated empirically in this study. The study evaluates the relationship between digital literacy, trust in digital systems, perceived policy support, and investment adoption using primary survey data gathered from 574 retail investors across major urban centers using descriptive statistics, exploratory factor analysis, and multiple regression analysis. The results show that adoption of digital investment platforms is strongly influenced by perceived efficacy of public policy measures and digital literacy. By offering evidence-based perspectives pertinent to India's digital century, the report adds to the body of knowledge on digital economy and public policy.

Keywords: Digital Economy; Public Policy; Retail Investors; Digital Finance; India

JEL Classification Codes: D14, D83, G11, G18, O33

1. Introduction

Rapid digitalization in the social and economic spheres is causing structural change in India. India is now a world leader in digital public infrastructure because to government-led projects like Digital India, Aadhaar-enabled services, and UPI. In addition to improving service delivery, these advancements have changed financial behavior by making it possible for more people to participate in the investment markets. For trading, investing in mutual funds, and managing their portfolios, retail investors are depending more and more on digital platforms. Digitalization poses issues with cybersecurity, digital literacy, and regulatory sufficiency even as it offers efficiency and equality. The confidence, uptake, and sustainability of digital financial systems are significantly influenced by public policy. In this regard, it is crucial to comprehend how digital public policy affects investor behavior in order to guarantee equitable and steady economic growth.

2. Review of Literature

Scholarly interest in the connection between economic development and digital transformation is increasing, especially in developing nations like India. Financial inclusion, efficiency, and openness in economic transactions are seen as being accelerated by digital public infrastructure. According to research based on development economics, digital platforms facilitate more market involvement by lowering transaction costs and information asymmetry (Akerlof, 1970; Becket al., 2018). Bhattacharya and Patnaik (2016) point out that institutional reforms and technical innovation are directly associated with the development of the financial sector in India. Access to formal financial systems has been greatly improved with the advent of UPI and Aadhaar-linked services, particularly for first-time investors. Sarma and Pais (2011) give empirical evidence that, when institutional support mechanisms are strong, financial inclusion has a favorable impact on economic development.

Davis's (1989) Technology Acceptance Model (TAM) offers a fundamental framework for comprehending digital adoption behavior from both a behavioral and technological standpoint. Perceived utility, usability, and trust are important factors that influence the adoption of digital platforms, according to empirical research using TAM in the financial services industry (Gomber et al., 2018). Financial literacy is crucial for making well-informed financial decisions, especially in technologically mediated settings, according to Lusardi and Mitchell (2014).

Current policy-focused research emphasizes how crucial public trust and regulatory supervision are to maintaining

digital financial ecosystems. Strong governance, cybersecurity frameworks, and investor protection measures are crucial supplements to digital innovation, according to reports from the Reserve Bank of India (2020) and NITI Aayog (2021). Nevertheless, there are few empirical studies that directly connect digital public policy initiatives with the investment adoption behavior of Indian retail investors, despite the growing corpus of literature.

By combining behavioral finance, digital economics, and public policy viewpoints into a single empirical framework, the current study fills a significant research void in the Indian economic setting and adds to the body of knowledge.

3. Objectives of the Study

1. To assess how widely Indian retail investors use digital financial platforms.
2. To examine how digital literacy affects the use of digital investment platforms by retail investors.
3. To evaluate how investment decision-making is influenced by trust in digital financial systems.
4. To assess how public policy actions affect the uptake of digital investments.

3.1 Hypotheses of the Study

H1: The use of digital investment platforms has significant positive impact on digital literacy. H2: Retail investors' adoption behaviour is strongly influenced by their level of trust in digital financial platforms.

H3: The adoption of digital investment platforms is significantly influenced by the perceived efficacy of public policy measures.

H4: Significant heterogeneity in retail investors' adoption of digital investments can be explained by a combination of digital literacy, trust, and public policy assistance.

4. Research Methodology

4.1 Research Design

The study uses primary survey data in an analytical and descriptive research approach.

4.2 Sample and Data Collection

574 retail investors from key Indian cities, such as Bengaluru, Chennai, Hyderabad, and Mumbai, provided primary data. Both online and offline methods were used to conduct a structured questionnaire. Purposive sample and convenience sampling strategies were used to guarantee that investors who are active online were represented. In order to avoid duplicate entries and guarantee answer validity, data gathering was done during the day.

Table: Normality Assessment of Study Variables

Variable	Mean	SD	Skewness	Kurtosis	Normality Decision
Digital Literacy	3.87	0.68	Within ±1	Within ±1	Normal
Trust in Digital Platforms	3.74	0.71	Within ±1	Within ±1	Normal
Public Policy Support	3.69	0.73	Within ±1	Within ±1	Normal

Digital Adoption	Investment	3.81	0.66	Within ± 1	Within ± 1	Normal
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Acceptance Criteria Used

- Skewness between **-2 and +2**
- Kurtosis between **-7 and +7**

(Kline, 2016; Hair et al., 2019)

An assessment of data normality was conducted prior to inferential analysis. The descriptive statistics indicated that the mean values were centrally distributed, with moderate standard deviations. Skewness and kurtosis values for all study constructs were within acceptable thresholds, indicating no serious departures from normality. Given the large sample size (N = 574), the data were considered to be approximately normally distributed. Therefore, the assumptions required for exploratory factor analysis and multiple regression analysis were satisfactorily met.

5. Data Analysis and Interpretation

Table 1

Demographic Profile of Respondents (N = 574)

Variable	Category	Frequency	Percentage
Gender	Male	334	58.2
	Female	240	41.8
Age	Below 25 years	92	16.0
	26–35 years	268	46.7
	36–45 years	142	24.7
	Above 45 years	72	12.6
Education	Graduate	275	47.9
	Postgraduate & Above	299	52.1

Note. Percentages may not total 100 due to rounding.

Table 2

Descriptive Statistics of Study Variables

Variable	Mean	SD	Minimum	Maximum
Digital Literacy	3.87	0.68	1.00	5.00
Trust in Digital Platforms	3.74	0.71	1.00	5.00
Public Policy Support	3.69	0.73	1.00	5.00
Digital Investment Adoption	3.81	0.66	1.00	5.00

Table 3

Kaiser–Meyer–Olkin and Bartlett’s Test of Sphericity

Measure	Value
KMO Measure of Sampling Adequacy	0.812
Bartlett's Test of Sphericity (χ^2)	2145.36
df	153
Sig.	< .001

Table 4

Exploratory Factor Analysis: Rotated Component Matrix

Item	Digital Literacy	Trust	Policy Support
DL1	0.812	—	—
DL2	0.784	—	—
DL3	0.756	—	—
TR1	—	0.801	—
TR2	—	0.773	—
TR3	—	0.742	—
PP1	—	—	0.798
PP2	—	—	-0.761
PP3	—	—	-0.734

Note. Factor loadings below .50 are suppressed.

Table 5

Multiple Regression Results: Determinants of Digital Investment Adoption

Predictor	B	SE	β	t	Sig.
Constant	0.612	0.184	—	3.33	.001
Digital Literacy	0.421	0.041	.41	10.27	< .001
Trust in Digital Platforms	0.298	0.039	.29	7.64	< .01
Public Policy Support	0.221	0.036	.22	6.14	< .01

Model Fit: $R^2 = .48$, Adjusted $R^2 = .47$, $F(3, 570) = 89.47$, $p < .001$

6. Discussion

The empirical results strengthen the relevance of digital public policy in influencing economic behavior in India's digital century and offer substantial support for the assumptions put forth. The adoption of digital investments was found to be most influenced by digital literacy, highlighting the significance of financial and technological education in boosting market participation.

Adoption decisions were greatly impacted by trust in digital platforms, underscoring the importance of regulatory control, data protection regulations, and platform openness. The effectiveness of programs like Digital India, UPI, and investor awareness campaigns in boosting retail investors' confidence is reflected in the favorable impact of perceived public policy support.

The findings are consistent with institutional economics and technology adoption theory, highlighting the fact that strong public policy and institutional trust are necessary for digital transformation to be most successful.

7. Policy Implications

- Enhancing digital financial literacy initiatives by working together with educational institutions and regulators.
- Strengthening cybersecurity laws to boost investor confidence.
- To promote equitable growth, digital infrastructure should be extended to rural and semi-urban areas.

8. Conclusion

The importance of digital public policy in influencing retail investors' involvement in India's quickly developing digital financial ecosystem is demonstrated empirically by this study. In keeping with the theme Economics and Public Policy for India in the Digital Century, the results show that retail investors' adoption of digital investment platforms is strongly influenced by digital literacy, trust in digital platforms, and the perceived efficacy of public policy initiatives.

The findings show that digital literacy is the most important factor, emphasizing that having digital infrastructure is not enough without significant financial and technological knowledge. Investor confidence is further bolstered by trust in digital platforms, which is strengthened by cybersecurity measures, regulatory monitoring, and open grievance redressal procedures. Crucially, institutional enablers that combine technology with economic engagement include public policy efforts like Digital India, UPI, and investor education programs.

From a policy standpoint, the report emphasizes that in order to guarantee equitable and sustainable digital financial growth, regulators, financial institutions, and educational institutions must work together. Deepening retail investor engagement will need bolstering digital literacy initiatives, improving regulatory protections, and extending internet infrastructure outside of major cities. Overall, by providing empirical insights unique to India that assist evidence-based policymaking in the digital age, the study adds to the literature on digital economics and public policy.

9. Scope for Further Research

Although the current study offers valuable insights, it also creates a number of opportunities for further investigation. First, the study is based on cross-sectional data; longitudinal research might look at how legislative changes and technical improvements affect retail investors' digital adoption behavior over time. Second, in order to evaluate regional differences in the adoption of digital investments and financial inclusion, future studies might expand the investigation to semi-urban and rural areas.

Third, complicated causal linkages between digital literacy, trust, policy perception, and investment outcomes could be tested using sophisticated analytical methods like structural equation modeling (SEM). Fourth, comparative research between nations with comparable frameworks for digital public infrastructure may provide important worldwide insights into the efficacy of digital public policy.

Lastly, in order to capture the next stage of India's digital financial transformation, future research may include new aspects including robo-advisory services, AI-driven investment platforms, and ESG-focused digital investments. Such studies would deepen our knowledge of how public policy and digital innovation interact to influence economic behavior in the digital age.

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