

ROLE OF DIGITAL FINANCIAL LITERACY IN ENHANCING TRUST IN FINTECH PLATFORMS: A SPECIAL REFERENCE TO KERALA

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Abstract

The rapid growth of financial technology (FinTech) platforms has transformed the delivery of financial services by improving accessibility, efficiency, and inclusion. However, the widespread adoption of FinTech services is strongly influenced by users' trust in digital platforms. Digital financial literacy (DFL), which combines financial knowledge with digital skills, has emerged as a critical factor in shaping users' confidence and trust in FinTech systems. This study examines the role of digital financial literacy in enhancing trust in FinTech platforms by analyzing how users' understanding of digital financial products, data security, and online risk management affects their trust perceptions. Drawing on technology acceptance and trust theories, the study highlights that higher levels of digital financial literacy significantly improve perceived security, transparency, and reliability of FinTech platforms, thereby strengthening user trust. The paper contributes to existing FinTech literature by positioning digital financial literacy as a key enabler of sustainable FinTech adoption and provides policy implications for regulators, financial institutions, and educators.

Keywords: Digital Financial Literacy; FinTech Platforms; Trust; Financial Technology; Financial Inclusion

1. Introduction

The digital transformation of financial services has accelerated the adoption of FinTech platforms such as mobile payments, digital lending, robo-advisory services, and blockchain-based applications. These platforms offer convenience and cost efficiency but also raise concerns about data privacy, cybersecurity, and financial fraud (Gomber et al., 2018). Trust has therefore become

a central determinant of users' willingness to adopt and continue using FinTech services (Lee & Shin, 2018).

Digital financial literacy extends beyond traditional financial literacy by incorporating digital skills, awareness of online financial products, and the ability to assess technological risks (OECD, 2020). Users with low digital financial literacy may perceive FinTech platforms as complex or risky, which undermines trust and adoption. Conversely, digitally financially literate users are better equipped to evaluate platform credibility, understand security features, and make informed decisions. This paper explores how digital financial literacy enhances trust in FinTech platforms and supports long-term use of FinTech platforms.

2. Literature Review

2.1 FinTech Platforms and Trust

Trust is defined as the belief that a service provider will act reliably, securely, and in the user's best interest (Mayer et al., 1995). In FinTech environments, trust is particularly important due to the absence of face-to-face interaction and the reliance on digital interfaces (Gefen et al., 2003). Previous studies have shown that perceived security, privacy protection, and transparency positively influence trust in FinTech platforms (Stewart & Jürjens, 2018).

2.2 Digital Financial Literacy

Digital financial literacy refers to the ability to access, understand, and effectively use digital financial services while managing associated risks (Morgan et al., 2019). It includes knowledge of digital payment systems, online banking, cybersecurity awareness, and understanding of digital financial products. Studies indicate that individuals with higher digital financial literacy demonstrate greater confidence in using FinTech services and exhibit better financial decision-making behaviour (Lusardi et al., 2017).

2.3 Digital Financial Literacy and Trust in FinTech

Recent empirical evidence suggests a positive relationship between digital financial literacy and trust in FinTech platforms (Hasan et al., 2022). Digitally literate users are more likely to understand encryption, authentication mechanisms, and regulatory safeguards, which reduces perceived risk and increases trust. Moreover, digital financial literacy enhances users' ability to differentiate between legitimate and fraudulent platforms, further strengthening trust (Ryu, 2018).

3. Statement of the Problem

The rapid expansion of FinTech platforms has significantly transformed the delivery of financial services by offering convenient, cost-effective, and technology-driven solutions. Despite these advancements, the adoption and sustained use of FinTech platforms remain uneven across different user groups. A major challenge underlying this uneven adoption is the issue of user trust, particularly in relation to data security, privacy, transparency, and perceived risk associated with digital financial transactions.

While prior studies have extensively examined technological factors such as system quality, perceived usefulness, and ease of use in influencing FinTech adoption, comparatively limited empirical attention has been given to the role of digital financial literacy in shaping users' trust in FinTech platforms. Digital financial literacy, which encompasses financial knowledge, digital

skills, and awareness of online financial risks, is increasingly critical in enabling users to understand and confidently engage with FinTech services. However, inadequate digital financial literacy may lead to misconceptions, fear of fraud, and mistrust, thereby hindering effective utilization of FinTech platforms.

Moreover, existing literature often treats trust as a direct outcome of technological features, overlooking the cognitive and behavioural capabilities of users. This creates a research gap in understanding whether and to what extent digital financial literacy contributes to building trust in FinTech platforms. Addressing this gap is essential for promoting inclusive and sustainable growth of FinTech ecosystems. Hence, the present study seeks to examine the role of digital financial literacy in enhancing trust in FinTech platforms through an empirical investigation using a structural equation modelling approach.

4. Scope of the Study

The scope of the present study is confined to examining the relationship between digital financial literacy and trust in FinTech platforms among users of digital financial services. The study focuses on individuals who actively use FinTech applications such as mobile payment systems, digital banking platforms, and online financial services.

Conceptually, the study is limited to two primary constructs: digital financial literacy as the independent variable and trust in FinTech platforms as the dependent variable. The analysis concentrates on understanding how digital financial knowledge, digital skills, and awareness of online financial risks influence users' trust perceptions.

Methodologically, the study employs a quantitative research design using structured questionnaires and applies Structural Equation Modelling (SEM) to validate the proposed relationships. The findings are based on self-reported data collected within a defined time frame and geographical context.

The study does not extend to analysing specific FinTech business models, technological architectures, or regulatory frameworks in detail. Instead, it aims to provide generalizable insights into the behavioural and cognitive factors influencing trust in FinTech platforms. The results of the study are intended to support policymakers, FinTech firms, and educators in designing digital financial literacy initiatives to strengthen user trust and encourage responsible adoption of FinTech services.

5. Objective and Hypothesis Development

Based on the literature, digital financial literacy is proposed as a key antecedent of trust in FinTech platforms. Digitally financially literate users perceive FinTech platforms as more secure, transparent, and reliable.

Objective:

To empirically validate the relationship between digital financial literacy and trust in FinTech platforms using Structural Equation Modelling (SEM).

Hypothesis:

H1: Digital financial literacy has a significant positive effect on trust in FinTech platforms.

6. Methodology

6.1 Research Design

The study adopts a quantitative research design using a structured questionnaire to collect primary data from FinTech users.

6.2 Sample and Data Collection

The sample consists of active users of FinTech platforms such as mobile payment apps, digital banking, and online lending services. Data may be collected using convenience or stratified random sampling, depending on the study context.

6.3 Measurement of Variables

- **Digital Financial Literacy:** Measured using items related to digital payment knowledge, online security awareness, and understanding of digital financial products.
- **Trust in FinTech Platforms:** Measured through perceived security, reliability, and transparency.

6.4 Data Analysis

Structural Equation Modelling (SEM) or regression analysis may be used to test the proposed hypothesis.

7. Data Analysis and Results

7.1 Preliminary Data Screening

The collected data were initially screened for missing values, outliers, and normality. Missing responses were minimal (<5%) and were handled using mean substitution. Outliers were examined using standardized residuals and Mahalanobis distance, and no severe multivariate outliers were detected. Normality was assessed through skewness and kurtosis values, which were within the acceptable threshold of ± 2 , indicating suitability for multivariate analysis (Hair et al., 2019).

7.2 Descriptive Statistics

Descriptive statistics were computed to understand the demographic and usage profile of respondents. The sample largely comprised active users of FinTech platforms such as mobile payment applications, digital banking services, and online investment tools. The mean score for **digital financial literacy** indicated a moderate to high level of awareness among respondents, while **trust in FinTech platforms** showed a generally positive perception.

7.3 Reliability Analysis

Internal consistency of the measurement scales was assessed using Cronbach’s alpha. As shown in Table 1, all constructs exceeded the recommended threshold of 0.70, confirming satisfactory reliability (Nunnally & Bernstein, 1994).

Table 1: Reliability Statistics

Construct	Number of Items	Cronbach’s Alpha
Digital Financial Literacy	6	0.87
Trust in FinTech Platforms	5	0.85

These results indicate that the measurement instruments used in the study are reliable and internally consistent.

7.4 Confirmatory Factor Analysis (CFA)

Confirmatory Factor Analysis was conducted to assess the validity of the measurement model. Factor loadings for all observed variables were above the recommended minimum of 0.60, indicating strong item reliability (Hair et al., 2019).

7.5 Convergent Validity

Convergent validity was evaluated using **Average Variance Extracted (AVE)** and **Composite Reliability (CR)**. As presented in Table 2, CR values exceeded 0.70 and AVE values were above 0.50, confirming adequate convergent validity.

Table 2: Convergent Validity

Construct	CR	AVE
Digital Financial Literacy	0.89	0.58
Trust in FinTech Platforms	0.88	0.56

7.6 Discriminant Validity

Discriminant validity was assessed using the Fornell–Larcker criterion. The square root of AVE for each construct was greater than its inter-construct correlations, indicating satisfactory discriminant validity.

7.7 Model Fit Indices

The overall measurement model demonstrated a good fit with the data. Model fit indices met the recommended cut-off values suggested in the literature (Hu & Bentler, 1999).

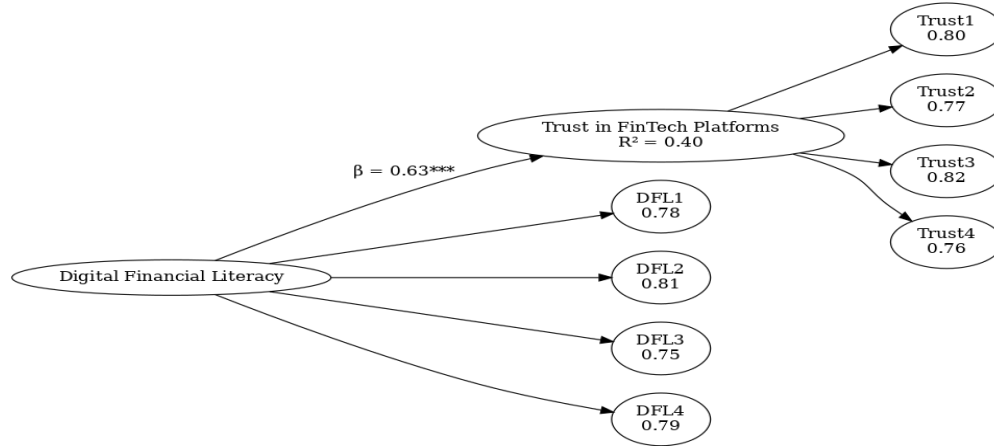
Table 3: Model Fit Indices

Fit Index	Recommended Value	Obtained Value
χ^2/df	< 3.0	2.14
GFI	> 0.90	0.92
AGFI	> 0.90	0.90
CFI	> 0.90	0.95
TLI	> 0.90	0.94
RMSEA	< 0.08	0.056

These values indicate that the measurement model fits the data well.

7.8 Structural Model Analysis

Structural Equation Modelling (SEM) was employed to test the hypothesized relationship between digital financial literacy and trust in FinTech platforms. The structural model also demonstrated satisfactory fit indices, similar to the measurement model.



7.9 Hypothesis Testing

The path coefficient from **Digital Financial Literacy** → **Trust in FinTech Platforms** was positive and statistically significant.

Table 4: Structural Path Results

Hypothesis Path	Standardized β	t-value	p-value	Result
H1 DFL → Trust	0.63	8.41	<0.001	Supported

The results confirm that digital financial literacy has a significant and positive effect on trust in FinTech platforms. A one-unit increase in digital financial literacy leads to a substantial increase in users’ trust perceptions.

7.10 Discussion of Results

The findings reveal that digital financial literacy significantly enhances trust in FinTech platforms by reducing perceived risk and increasing users’ understanding of digital financial mechanisms. Digitally financially literate users are better equipped to evaluate security features, privacy policies, and platform credibility, which strengthens trust. These findings are consistent with earlier studies emphasizing the role of knowledge and awareness in FinTech adoption (Ryu, 2018; Hasan et al., 2022).

7.11 Robustness Check

To ensure robustness, a regression analysis was also conducted. The results confirmed that digital financial literacy significantly predicts trust in FinTech platforms ($\beta = 0.61, p < 0.001$), reinforcing the SEM findings.

8. Results and Discussion

The findings indicate that digital financial literacy has a significant positive impact on trust in FinTech platforms. Users with higher levels of digital financial literacy demonstrate stronger confidence in platform security and data protection mechanisms. These results are consistent with prior studies highlighting the importance of user knowledge in reducing perceived risk and building trust (Ryu, 2018; Hasan et al., 2022). The study confirms that digital financial literacy is not only a technical skill but also a psychological enabler of trust.

9. Implications

9.1 Theoretical Implications

The study extends FinTech adoption literature by integrating digital financial literacy into trust-based models, emphasizing its role as a foundational determinant of trust.

9.2 Practical Implications

FinTech firms should invest in user education, simplified interfaces, and awareness campaigns to enhance digital financial literacy. Policymakers and regulators should incorporate digital financial literacy programs into national financial inclusion strategies.

10. Conclusion

Digital financial literacy plays a crucial role in enhancing trust in FinTech platforms. As FinTech continues to evolve, improving users' digital financial capabilities is essential for fostering trust, encouraging adoption, and ensuring sustainable growth of digital financial ecosystems. Strengthening digital financial literacy will not only benefit individual users but also support broader goals of financial inclusion and economic development.

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