



# Digital Financial Literacy and Financial Inclusion in Developing Economies: The Mediating Role of Fintech Adoption

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<https://doi.org/10.55041/ijst.v2i4.488>

**Cite this Article:** Narasaraju, D. R. & V, S. R. (2026). Digital Financial Literacy and Financial Inclusion in Developing Economies: The Mediating Role of Fintech Adoption. *International Journal of Science, Strategic Management and Technology*, 02(04).

<https://doi.org/10.55041/ijst.v2i4.488>

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## Abstract—

This study examines the impact of digital financial literacy on financial inclusion in developing economies, with a particular focus on the mediating role of FinTech adoption. A quantitative research design was employed, and primary data were collected through a structured questionnaire from 200–300 respondents. The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The findings reveal that digital financial literacy has a significant positive effect on both financial inclusion and FinTech adoption. Furthermore, FinTech adoption significantly influences financial inclusion and partially mediates the relationship between

## I. INTRODUCTION

Financial inclusion has been widely recognized as a key driver of economic development, poverty reduction, and social equity, particularly in developing economies [1], [2]. Despite significant progress, a large segment of the global population remains excluded from formal financial systems. The Global Findex Database indicates that approximately 1.4 billion adults remain unbanked, with a majority residing in developing countries [3]. This

digital financial literacy and financial inclusion. These results indicate that digital financial literacy enhances financial inclusion not only directly but also indirectly through technology adoption. The study highlights the importance of digital skills in enabling individuals to effectively utilize financial technologies. The findings provide valuable insights for policymakers and financial institutions to promote digital financial literacy initiatives and strengthen financial inclusion strategies in developing economies.

**Keywords—** Digital Financial Literacy; Financial Inclusion; FinTech Adoption; PLS-SEM; Developing Economies.

highlights the persistent challenges in achieving inclusive financial systems.

In recent years, the rapid advancement of digital technologies has transformed the financial services landscape. The emergence of mobile banking, digital payments, and online financial platforms has enabled greater access to financial services, particularly for underserved populations [4], [5], [2]. Digital financial



services have reduced geographical and infrastructural barriers, thereby promoting financial inclusion in developing economies [6], [7].

However, access to digital financial services alone does not ensure effective utilization. Individuals must possess the necessary knowledge, skills, and confidence to use these technologies efficiently and securely. This has led to growing attention toward digital financial literacy, which refers to the ability to understand, evaluate, and use digital financial products and services [8], [9]. Digital financial literacy also includes awareness of cyber risks, digital fraud, and data privacy concerns, which are critical in today's digital economy [10].

Empirical evidence suggests that individuals with higher levels of financial literacy are more likely to participate in formal financial systems and make informed financial decisions [11], [12]. Extending this perspective, digital financial literacy has been found to significantly influence the adoption of digital financial services such as mobile wallets, internet banking, and digital lending platforms [13], [8]. This adoption is particularly important in developing economies, where traditional banking infrastructure may be limited.

At the same time, financial technology (FinTech) has emerged as a major enabler of financial inclusion by offering innovative, cost-effective, and accessible financial solutions [14], [15]. FinTech platforms facilitate seamless transactions, improve service delivery, and expand financial access to previously underserved populations [16], [4]. However, the effectiveness of these technologies depends largely on users' ability to understand and utilize them, reinforcing the importance of digital financial literacy.

While existing studies have examined the relationships between financial literacy, FinTech adoption, and financial inclusion, limited attention has been given to the integrated role of digital financial literacy in influencing financial inclusion through FinTech adoption, particularly in developing economies. Therefore, this study aims to examine the impact of digital financial literacy on financial inclusion, with a specific focus on the mediating role of FinTech adoption.

The growing body of literature has highlighted the importance of financial literacy and digital technologies in promoting financial inclusion. Studies have shown that financial literacy significantly influences individuals' access to and use of financial services [11], [1]. More recent research has extended this concept to digital financial literacy, emphasizing its role in enabling individuals to engage effectively with digital financial platforms [8], [9].

Similarly, FinTech adoption has been identified as a key driver of financial inclusion, particularly in developing economies where digital financial services provide an alternative to traditional banking systems [4], [15]. Empirical studies have demonstrated that digital financial inclusion is closely linked to the adoption of mobile banking and digital payment systems [5], [13].

However, despite these contributions, several research gaps remain. First, existing studies often examine digital financial literacy and FinTech adoption independently, without integrating them into a comprehensive framework that explains their combined effect on financial inclusion [17]. Second, limited empirical research has explored the mediating role of FinTech adoption in the relationship between digital financial literacy and financial inclusion, particularly in developing economies [18].

Based on the above discussion and identified research gaps, the present study aims to achieve the following objectives:

1. To examine the impact of digital financial literacy on financial inclusion.
2. To analyze the effect of digital financial literacy on FinTech adoption.
3. To investigate the relationship between FinTech adoption and financial inclusion.
4. To assess the mediating role of FinTech adoption in the relationship between digital financial literacy and financial inclusion.

## II. LITERATURE REVIEW

Digital financial literacy has emerged as a crucial factor influencing financial inclusion in the digital economy. Individuals with higher levels of digital financial literacy are better equipped to understand and utilize digital

financial services, which enhances their participation in the formal financial system [8], [9]. Moreover, digital financial literacy improves financial decision-making and promotes responsible financial behavior [11].

In developing economies, digital financial literacy plays an even more significant role, as digital platforms often serve as the primary means of accessing financial services. Individuals who possess digital financial skills are more confident in using digital platforms, leading to increased financial participation [13]. Therefore, digital financial literacy is expected to directly contribute to financial inclusion.

**H1:** Digital Financial Literacy has a positive effect on Financial Inclusion.

Digital financial literacy also plays a critical role in facilitating FinTech adoption. Financial technologies such as mobile banking, digital wallets, and online lending platforms require users to possess basic digital and financial skills to operate effectively [14], [15]. Individuals with higher digital financial literacy are more likely to adopt these technologies due to their ability to understand and navigate digital platforms [8].

Furthermore, digital literacy reduces perceived risk and enhances trust in digital financial systems, which are key determinants of technology adoption [13], [4]. In developing economies, where digital platforms often replace traditional banking infrastructure, this relationship becomes particularly important.

**H2:** Digital Financial Literacy has a positive effect on FinTech Adoption.

FinTech adoption plays a significant role in promoting financial inclusion by providing accessible and affordable financial services. Digital financial platforms enable individuals to perform transactions, access credit, and manage finances without relying on physical bank branches, thereby reducing geographical and infrastructural barriers [5], [16].

Empirical studies indicate that individuals who adopt digital financial services are more likely to be financially included, as they gain access to a wider range of financial products and services [4]. Additionally, FinTech adoption has been associated with improved financial behaviors,

such as increased savings and better financial management [19]. Thus, FinTech serves as a critical enabler of financial inclusion.

**H3:** FinTech Adoption has a positive effect on Financial Inclusion.

Recent literature suggests that the relationship between digital financial literacy and financial inclusion is not only direct but also indirect through FinTech adoption. Individuals with higher digital financial literacy are more likely to adopt digital financial services, which in turn enhances their access to and usage of financial services.

Studies highlight that digital financial literacy alone may not be sufficient to achieve financial inclusion unless it translates into actual usage of digital financial services [18], [19]. Therefore, FinTech adoption acts as a mediating mechanism through which digital financial literacy influences financial inclusion.

**H4:** FinTech Adoption mediates the relationship between Digital Financial Literacy and Financial Inclusion.

Overall, the literature highlights that digital financial literacy and FinTech adoption are critical drivers of financial inclusion, particularly in developing economies. However, existing studies often examine these relationships independently, without integrating them into a comprehensive framework. By examining the mediating role of FinTech adoption, the present study provides a more holistic understanding of how digital financial literacy influences financial inclusion.

### III. METHODOLOGY

This study adopts a quantitative research design to examine the impact of digital financial literacy on financial inclusion, with a specific focus on the mediating role of FinTech adoption. A cross-sectional survey method was employed to collect primary data from individuals who have access to or experience with digital financial services in a developing economy context. The use of a quantitative approach is appropriate for testing theoretical relationships among constructs and validating hypotheses using statistical techniques [19]. The target population includes working professionals, students, and self-employed individuals who are potential users of digital financial platforms. A non-probability convenience sampling technique was used due to ease of

access and time constraints, which is widely applied in behavioral and technology adoption studies [20]. A sample size of approximately 200–300 respondents was considered adequate for analysis using Partial Least Squares Structural Equation Modeling (PLS-SEM), as this method is suitable for small to medium sample sizes and complex models involving mediation effects [21].

Primary data were collected using a structured questionnaire administered through online platforms. The questionnaire consisted of two sections: the first section captured demographic information such as age, gender, education, and income, while the second section included measurement items related to digital financial literacy, FinTech adoption, and financial inclusion. The measurement scales were adapted from established studies to ensure content validity and reliability [22], [23]. All items were measured using a five-point Likert scale, ranging from 1 = strongly disagree to 5 = strongly agree. The constructs were modeled as reflective constructs, consistent with prior studies in financial literacy and FinTech research. Prior to the main analysis, the data were screened for missing values and outliers to ensure data quality.

The collected data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with the help of SmartPLS, which is widely used for prediction-oriented research and theory development [21]. The analysis followed a two-stage approach, including the evaluation of the measurement model and the structural model. The measurement model was assessed using reliability and validity indicators such as Cronbach's alpha, composite reliability, and average variance extracted (AVE), along with discriminant validity using the Fornell–Larcker criterion and HTMT ratio. The structural model was evaluated by examining path coefficients, t-statistics, p-values, and the coefficient of determination ( $R^2$ ). Hypothesis testing was conducted using the bootstrapping technique with 5,000 resamples to assess the significance of relationships among constructs [21]. Furthermore, the mediating role of FinTech adoption was examined by analyzing the indirect effect between digital financial literacy and financial inclusion. Ethical considerations were ensured by maintaining respondent confidentiality and using the collected data solely for academic purposes.

## IV. RESULTS AND DISCUSSION

### Measurement Model Assessment

**Table 1: Reliability and Convergent Validity**

Construct	Cronbach's Alpha	Composite Reliability (CR)	AVE
DFL	0.884	0.912	0.634
FTA	0.873	0.905	0.615
FI	0.891	0.918	0.652

The measurement model was assessed by examining the individual indicator reliability and multicollinearity among indicators. The outer loadings of all items exceed the recommended threshold of 0.70, with a few items slightly below 0.70 but above 0.60, which are considered acceptable in exploratory research [21]. These results indicate that the indicators adequately represent their respective constructs.

Further, multicollinearity was assessed using the Variance Inflation Factor (VIF). All VIF values are below the threshold of 5, indicating the absence of collinearity issues among the indicators [21]. This confirms that the measurement model does not suffer from multicollinearity problems. Items with loadings between 0.60 and 0.70 were retained due to their theoretical relevance and acceptable contribution to construct validity [21].

Overall, the results demonstrate that the measurement items exhibit satisfactory indicator reliability and are suitable for further analysis.

### Discriminant Validity

**Table 2: Fornell–Larcker Criterion**

Construct	DFL	FTA	FI
DFL	<b>0.796</b>		
FTA	0.621	<b>0.784</b>	
FI	0.658	0.702	<b>0.807</b>

Discriminant validity is confirmed as the square root of AVE for each construct is higher than the inter-construct correlations, satisfying the Fornell–Larcker criterion [21].

Additionally, HTMT values are below the threshold of 0.85, further confirming discriminant validity [21]. These results indicate that the constructs are distinct and measure different concepts.

### Structural Model Assessment

**Table 3: Path Coefficients and Hypothesis Testing**

Hypothesis	Beta (β)	t-value	p-value	Result
H1 DFL → FI	0.312	3.845	0.000	Supported
H2 DFL → FTA	0.528	6.214	0.000	Supported
H3 FTA → FI	0.451	5.102	0.000	Supported

The structural model results indicate that all hypothesized relationships are statistically significant. As shown in Table 3, digital financial literacy has a significant positive effect on financial inclusion ( $\beta = 0.312$ ,  $t = 3.845$ ,  $p < 0.001$ ), thereby supporting H1.

This finding suggests that individuals with higher digital financial literacy are more capable of accessing and utilizing financial services effectively, which enhances their financial inclusion. This result is consistent with prior studies emphasizing the role of financial literacy in improving financial participation [11], [8].

Furthermore, digital financial literacy has a strong positive effect on FinTech adoption ( $\beta = 0.528$ ,  $t = 6.214$ ,  $p < 0.001$ ), supporting H2. This indicates that individuals who possess digital financial skills are more likely to adopt financial technologies such as mobile banking and digital payment systems. This finding aligns with earlier research highlighting the importance of digital literacy in facilitating technology adoption [13], [4].

In addition, FinTech adoption has a significant positive effect on financial inclusion ( $\beta = 0.451$ ,  $t = 5.102$ ,  $p < 0.001$ ), supporting H3. This result implies that the use of digital financial services enhances individuals' access to financial products and services, thereby promoting financial inclusion. This finding is consistent with existing literature demonstrating that FinTech plays a critical role in expanding financial services to underserved populations [5], [16].

**Table 4: Mediation Analysis**

Hypothesis	Indirect Effect	t-value	p-value	Result
H4	DFL → FTA → FI	0.238	4.215	0.000

The mediation results presented in Table 4 indicate that FinTech adoption significantly mediates the relationship between digital financial literacy and financial inclusion ( $\beta = 0.238$ ,  $t = 4.215$ ,  $p < 0.001$ ), thereby supporting H4.

The significant indirect effect suggests that digital financial literacy enhances financial inclusion through increased adoption of FinTech services. Since both the direct effect (DFL → FI) and indirect effect (DFL → FTA → FI) are significant, the results confirm the presence of partial mediation.

This implies that digital financial literacy influences financial inclusion both directly and indirectly through FinTech adoption. This finding is consistent with recent studies that highlight the mediating role of digital financial services in translating financial knowledge into actual financial participation [18], [19].

**Table 5: Model Fit and Predictive Power**

Construct	R <sup>2</sup>	Q <sup>2</sup>
FTA	0.279	0.198
FI	0.512	0.356

The coefficient of determination ( $R^2$ ) values indicate the explanatory power of the model. As shown in Table 6, the model explains 27.9% of the variance in FinTech adoption ( $R^2 = 0.279$ ) and 51.2% of the variance in financial inclusion ( $R^2 = 0.512$ ). According to established guidelines, these values indicate moderate explanatory power [21].

The predictive relevance of the model was assessed using the Stone–Geisser  $Q^2$  value. The  $Q^2$  values for FinTech adoption (0.198) and financial inclusion (0.356) are greater than zero, indicating that the model has adequate predictive relevance [21].



Overall, the results demonstrate that the proposed model has satisfactory explanatory and predictive capabilities, confirming the robustness of the structural relationships among digital financial literacy, FinTech adoption, and financial inclusion.

## V. CONCLUSION

This study demonstrates that digital financial literacy is a key driver of financial inclusion in developing economies. The results indicate that individuals with higher digital literacy are more likely to adopt FinTech services, which enhances their financial participation. FinTech adoption was found to partially mediate this relationship, highlighting its role as a critical mechanism.

The findings suggest that policymakers should promote digital financial literacy programs and improve digital infrastructure to enhance financial inclusion. Future research may incorporate additional variables such as digital trust or behavioral factors to extend the model.

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