

# The Role of Digital Payment Systems in Facilitating Remittance Transfers to Nepal

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## Abstract

Remittances play a vital role in Nepal's economy, significantly contributing to household incomes and national GDP. The adoption of digital payment systems has transformed the remittance transfer process, offering enhanced accessibility, cost-efficiency, and financial planning opportunities for recipients. Despite these benefits, challenges such as limited digital literacy and trust issues hinder widespread adoption, particularly in rural areas. This study explores the potential of digital payment systems to address these barriers through targeted strategies, including infrastructure development, collaboration between fintech providers and banks, and government-led awareness campaigns. By addressing these challenges, Nepal can unlock the full potential of digital remittance systems, driving financial inclusion and fostering long-term economic development.

**Keywords:** remittances, digital payment systems, financial inclusion, Nepal, fintech

## 1. Economic Relevance of Remittances in Nepal

Remittances are a cornerstone of Nepal's economy, providing vital financial support to millions of households and contributing significantly to the nation's GDP. In fact, remittances account for approximately 23-25% of Nepal's GDP, one of the highest proportions globally. This heavy reliance stems from the country's economic structure, characterized by limited industrial growth and insufficient domestic employment opportunities, particularly in rural areas. Consequently, millions of Nepalese workers migrate abroad, predominantly to Gulf countries, Malaysia, and India, to secure better livelihoods and support their families back home.

The impact of remittances extends beyond individual households. They act as a buffer for rural economies, where agriculture remains the primary source of income but is often insufficient due to land fragmentation, outdated practices, and climate vulnerabilities. In many cases, remittance income replaces the shortfall, enabling families to invest in critical areas such as education, healthcare, and small-scale business ventures. This inflow of funds also boosts local markets, as households with disposable income spend on goods and services, indirectly fostering economic activity.

Moreover, remittances have become a key factor in poverty alleviation and social mobility. They help bridge income gaps, reduce economic disparities, and provide a safety net for families facing unexpected financial shocks, such as medical emergencies or natural disasters. This dependency on remittances is particularly evident in rural Nepal, where other economic alternatives are scarce. It is estimated that nearly 56% of households in Nepal have at least one family member working abroad, highlighting the pervasive role of foreign employment in sustaining the nation's economic fabric.

Despite their significance, the reliance on remittances also presents vulnerabilities. Fluctuations in global labor markets, policy changes in host countries, or economic shocks such as the COVID-19 pandemic can disrupt remittance flows, severely impacting households and the broader economy. These challenges underscore the need for robust, efficient, and low-cost remittance transfer systems to ensure the uninterrupted flow of funds. As

Nepal continues to grapple with domestic employment challenges, remittances will remain a vital economic pillar, emphasizing their importance in the country's development trajectory.

## **2. How Digital Payment Systems Transform Remittance Transfers**

Digital payment systems have revolutionized the way remittances are sent and received in Nepal, offering faster, more convenient, and cost-effective alternatives to traditional channels such as bank transfers and informal hand-carry methods. The rise of platforms like eSewa and IME Pay, among others, has been instrumental in bridging the gap between senders and recipients, particularly in remote and rural areas where access to formal banking infrastructure is limited.

These digital platforms simplify cross-border transactions by leveraging modern technologies, including mobile banking and online wallets. For instance, eSewa, Nepal's first and largest digital wallet, enables users to receive remittances directly into their accounts, which can then be used for a wide range of purposes such as bill payments, school fees, and online shopping. Similarly, IME Pay, operated by the IME Group, has integrated remittance services into its digital ecosystem, allowing seamless fund transfers from international locations to recipients in Nepal.

The use of these digital systems reduces reliance on cash-based transactions, which often involve higher fees and logistical hurdles, particularly for families in rural regions. With digital platforms, the transfer process becomes more streamlined, eliminating the need for intermediaries and physical visits to banks or remittance agents. This is particularly beneficial for Nepalese migrant workers who may send smaller, frequent amounts, as digital systems minimize costs and transaction times.

Furthermore, digital payment systems enhance transparency and security, as transactions are electronically tracked, reducing risks of fraud and loss. These platforms also support local financial inclusion efforts by connecting unbanked populations to the formal financial system. By integrating innovative technologies such as QR codes and mobile authentication, digital remittance platforms make the process user-friendly and accessible, even for individuals with limited technical literacy.

The advent of digital payment systems has transformed the remittance landscape in Nepal, providing an efficient, secure, and inclusive alternative to traditional channels. This technological shift is not only improving the remittance experience for migrant workers and their families but also fostering broader economic integration and financial inclusion across the country.

## **3. Benefits of Digital Payment Systems for Remittance Recipients**

Digital payment systems have fundamentally reshaped the experience of receiving remittances in Nepal, offering a wide range of benefits that address longstanding challenges faced by recipients. These systems not only simplify the transfer process but also bring critical improvements in accessibility, cost-efficiency, and financial management, fostering economic empowerment for families and communities across the country.

### *3.1 Enhanced Accessibility for Remote and Rural Populations*

One of the most transformative aspects of digital payment systems is their ability to extend financial services to remote and rural areas, where traditional banking infrastructure is often scarce. Historically, recipients in these regions were required to travel long distances to access remittances from banks or remittance agents. For rural households, especially in mountainous areas or geographically isolated regions, this meant incurring significant costs in terms of both time and money. These obstacles were particularly burdensome for vulnerable populations such as women, elderly individuals, and those with mobility challenges.

Digital payment systems, such as mobile wallets and online platforms, have eliminated these barriers by enabling recipients to access their funds directly on their mobile devices. Platforms like eSewa, IME Pay, and other mobile-based services provide a seamless way to receive money, even in areas without formal banking institutions. For example, a farmer in a remote district can now receive funds without leaving the farm or disrupting their daily activities.

Additionally, the integration of mobile technology ensures that recipients can use their remittances for a variety of purposes, such as paying school fees, purchasing goods, or settling utility bills, without needing to withdraw cash. This enhanced accessibility not only saves time but also creates a more inclusive financial environment for marginalized groups. With digital payment systems, the urban-rural divide in financial services is steadily narrowing, bringing rural populations into the formal financial ecosystem.

### *3.2 Cost-Efficiency Compared to Traditional Remittance Channels*

Another significant advantage of digital payment systems is their cost-efficiency, which directly benefits recipients by maximizing the value of the funds they receive. Traditional remittance methods, such as wire transfers and cash-based systems, often involve high transaction fees and unfavorable exchange rates. For

example, banks and money transfer operators (MTOs) charge fees that can range from 5% to 15% of the remitted amount, significantly reducing the net amount received by families.

In contrast, digital payment platforms operate with minimal overhead costs and streamlined processes, allowing them to offer lower transaction fees. For example, using a platform like IME Pay may cost a fraction of what traditional methods charge, enabling recipients to retain a larger share of the remittance. This is particularly beneficial for families who rely on frequent, smaller transfers to meet their daily needs.

Furthermore, digital payment systems eliminate the hidden costs associated with physical cash transfers, such as transportation expenses, intermediary fees, and risks of theft. The ability to receive and store funds digitally ensures that every cent of the remittance is accounted for and protected. Over time, these cost savings translate into better financial outcomes for families, enabling them to allocate more resources toward education, healthcare, and other priorities.

### *3.3 Promotion of Savings and Better Financial Planning*

Digital payment systems play a crucial role in fostering better financial habits among remittance recipients. Unlike cash-based transactions, where recipients may be tempted to spend the money immediately, digital platforms allow users to store funds securely in digital wallets or linked bank accounts. This secure storage reduces the risks associated with holding large amounts of cash, such as theft or mismanagement, and encourages recipients to plan their expenses more strategically.

In addition to providing a secure storage option, many digital payment platforms include built-in features that promote financial literacy and savings. For instance, users can set aside a portion of their funds in savings accounts or investment tools, helping them prepare for future expenses such as education, medical emergencies, or starting a small business. These platforms also offer spending trackers, which give recipients a clearer picture of their financial activities, enabling them to identify unnecessary expenditures and make more informed decisions.

Moreover, digital payment systems act as gateways to additional financial services, such as microloans, insurance, and credit facilities. Recipients who demonstrate consistent savings or transaction histories on these platforms are more likely to gain access to these services, further enhancing their financial stability. This expanded access to financial products empowers families to move beyond short-term survival and focus on building long-term economic resilience.

For example, a family in rural Nepal might use a digital payment platform to save small amounts over several months, eventually accumulating enough to invest in a small agricultural enterprise. Such opportunities not only improve individual household income but also contribute to the broader economic development of their communities.

Digital payment systems have therefore emerged as a transformative force in the remittance ecosystem, providing recipients with unprecedented levels of accessibility, cost-efficiency, and financial empowerment. By addressing the unique challenges faced by Nepal's remittance-dependent families, these systems are not only improving the immediate experience of receiving funds but also paving the way for greater economic inclusion and sustainable development. As digital adoption continues to grow, the benefits for recipients are expected to expand, further strengthening Nepal's economic resilience.

## **4. Challenges Hindering Adoption**

The adoption of digital payment systems in Nepal faces significant hurdles, primarily stemming from limited digital literacy and pervasive trust issues among potential users. These challenges are particularly pronounced in rural and remote areas, where the population often lacks access to the knowledge and tools needed to navigate digital platforms effectively. While mobile phone penetration has increased in recent years, the ability to use these devices for complex tasks such as financial transactions remains limited. Many users, especially those unfamiliar with smartphones or apps, are intimidated by the prospect of performing online transactions. For first-time users, even downloading an app, setting up an account, or navigating a digital wallet can feel overwhelming, which discourages them from exploring these systems further.

This gap in digital literacy is compounded by low financial literacy, as many potential users do not have a clear understanding of how digital transactions work or how to manage their money within these platforms. The situation is particularly dire for vulnerable populations such as women, the elderly, and those with limited education. In many rural households, women, despite being primary recipients of remittances, often lack the autonomy or skills to engage with digital systems independently. Consequently, traditional cash-based remittance channels remain their preferred, albeit less efficient, option.

Adding to this challenge is a deep-seated lack of trust in digital platforms. For users who are accustomed to tangible, cash-based transactions, the shift to an intangible, technology-driven system can feel risky and

unreliable. Concerns about the safety and security of digital transactions are widespread, fueled by reports of scams, fraud, and unauthorized access. Many users fear losing their money due to errors, technical glitches, or fraudulent activities, which deters them from transitioning to digital systems. The lack of familiarity with concepts like encryption, account protection, or fraud detection only heightens these fears, making it difficult for users to feel confident in the safety of their funds.

Data privacy is another critical concern. Many users worry about how their personal and financial information is handled and whether it could be misused or accessed by unauthorized entities. These anxieties are particularly pronounced among individuals in rural areas, who may already mistrust formal financial institutions. Compounding the problem is the limited transparency and accountability displayed by some digital payment providers. For instance, unclear fee structures, inconsistent policies, or a lack of visible consumer protection measures can exacerbate users' doubts and reinforce their preference for traditional systems.

The challenges of limited digital literacy and trust do not exist in isolation; they reinforce each other to create a self-perpetuating cycle. Users who lack the skills to navigate digital platforms are more likely to encounter difficulties or errors, which erodes their confidence in these systems. On the other hand, users who mistrust digital platforms are less inclined to invest the time and effort required to learn how to use them effectively. This combination of barriers not only slows the adoption of digital payment systems but also prevents many families from accessing the significant benefits they offer.

Overcoming these challenges requires targeted interventions and collaborative efforts. Comprehensive digital literacy campaigns that focus on practical, hands-on training can empower users to navigate digital platforms with confidence. These campaigns must be tailored to meet the specific needs of rural populations, addressing their unique challenges and priorities. Additionally, fintech companies and digital payment providers need to prioritize transparency and security in their operations. Clearly communicating data protection measures, offering robust fraud prevention systems, and maintaining user-friendly interfaces can help build trust and confidence among potential users.

By addressing these challenges head-on, Nepal can unlock the full potential of digital payment systems, ensuring that the benefits of remittance modernization reach even the most underserved populations. Without deliberate efforts to tackle digital literacy gaps and trust deficits, however, the promise of digital payments as a tool for financial inclusion will remain unfulfilled.

## **5. Strategies for Maximizing Impact**

To fully harness the potential of digital payment systems for facilitating remittance transfers in Nepal, targeted strategies are required to address existing challenges and optimize their impact. A combination of infrastructure improvements, collaborative partnerships, and user-focused interventions can help bridge gaps and ensure widespread adoption.

Strengthening infrastructure is a foundational step to enhance the reliability and accessibility of digital payment systems, particularly in rural and remote areas. Many regions in Nepal suffer from inconsistent internet connectivity and limited access to mobile networks, which are essential for the functioning of digital platforms. Expanding the country's telecommunications infrastructure to improve mobile and internet penetration is crucial for ensuring that no region is left behind. Additionally, fintech providers must focus on developing lightweight and user-friendly applications that can operate efficiently in low-bandwidth conditions, further reducing barriers for users in underserved areas.

Encouraging collaboration between fintech providers and local banks is another key strategy to promote digital payment adoption. Partnerships between these entities can create a more integrated financial ecosystem, combining the innovative capabilities of fintech with the extensive reach and trust of traditional banks. For instance, fintech companies can leverage banks' established customer bases to expand their reach, while banks can incorporate digital payment systems into their services to provide users with a seamless experience. Joint efforts could also include the development of shared digital platforms that allow remittance recipients to transfer funds between digital wallets and bank accounts effortlessly. Such collaborations would not only streamline operations but also instill greater confidence in users, as banks are often seen as more reliable and secure.

Government-led awareness campaigns play a pivotal role in building trust and encouraging adoption of digital payment systems. Many users remain unaware of the benefits of these platforms or harbor misconceptions about their safety and reliability. Targeted awareness initiatives, particularly in rural areas, can educate potential users on how to use digital systems, the cost savings they offer, and the security measures in place to protect their funds and data. Governments can partner with local organizations, community leaders, and educational institutions to disseminate this information effectively. Additionally, public campaigns emphasizing the reliability of digital payment systems and showcasing real-life success stories can help address skepticism and foster trust among hesitant users.

Another critical aspect of government involvement is the establishment of clear regulatory frameworks to ensure consumer protection and transparency. By setting standards for data privacy, transaction security, and grievance redressal, the government can enhance user confidence and create a more stable environment for digital payment adoption. Incentives such as tax breaks for fintech providers or subsidies for mobile devices can further accelerate the digital transition, particularly for low-income households that rely heavily on remittances.

Ultimately, the combination of infrastructure development, strategic collaborations, and trust-building initiatives can transform the remittance landscape in Nepal. By addressing both technical and social barriers, these strategies can ensure that digital payment systems become a cornerstone of financial inclusion and economic empowerment for millions of Nepalese families. Through concerted efforts by stakeholders across the public and private sectors, Nepal can unlock the full potential of digital remittances, driving long-term development and social progress.

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