

Impact of Cashback and Reward Programme's On E-Wallet Usage

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ABSTRACT

The impact of cashback offers and structured reward programs on customer adoption and long-term e-wallet usage in the Indian digital payments market is thoroughly examined in this research study. A crucial question has surfaced in both academic and industry literature as financial technology companies continue to devote substantial marketing budgets to promotional incentive schemes: do these financial incentives foster long-term platform loyalty, or do they merely draw price-sensitive users who quickly switch to rival platforms when a better offer becomes available? Using a mixed-methods research approach, the study examines perceptual data from 150 participants, comprising students, young professionals, and daily wage earners, to assess the impact of incentives on four principal behavioral dimensions: perceived value, platform loyalty, usage frequency, and trust. The results show a complex situation that the paper calls the "Incentive Dependency Paradox." This is because cashback and rewards are great for getting people to try something new and keep them interested in the short term, but they also make loyalty weak, which fades quickly when the promotion stops. The study also shows that trust, ease of use, and consistent service quality are moderating factors that decide if users who are motivated by incentives become truly loyal customers.

Keywords: fintech, e-wallet, cashback, reward schemes, digital payments, adoption, loyalty, incentive dependence, and UPI.

I. INTRODUCTION

Over the past ten years, India's digital payments landscape has undergone a transformation of historic proportions. What started with the 2016 demonetization move prompting millions to quickly adopt digital financial tools has since evolved into the near-universal adoption of the Unified Payments Interface (UPI) across everyday economic life. Today, India is widely seen as a global leader in mobile first financial innovation. At the heart of this shift lies the e-wallet: a smartphone based application that allows users to store money, transfer funds, and pay for goods and services using only their device and a personal PIN. Despite rapid growth in user numbers, e-wallet providers continue to struggle with a key challenge: while acquiring unpracticed

users is easy, maintaining long-term engagement remains difficult. In a crowded and competitive market where switching between platforms is simple and many users manage three or more active accounts simultaneously, network advantages can disappear overnight. As a result, companies have increasingly turned to familiar promotional strategies, especially cashback offers and reward points, to build customer loyalty that their platforms' core features have yet to inspire on their own. When someone receives ₹10 back on a ₹100 grocery purchase or earns enough points through regular bill payments to claim a free movie ticket, digital transactions begin to offer tangible benefits beyond what cash can deliver.

Repeated over time, this positive

reinforcement is meant to re- shape user habits, making it feel more intuitive and more rewarding to rely on a smartphone rather than a physical wallet. In the short run, the results encourage cashback campaigns to reliably increase transaction volumes, and reward programmes often improve customer satisfaction scores. Yet a deeper question persists in one that motivates this study, namely, whether such incentives lead to lasting behavioral change or simply purchase temporary activity without building the kind of trust needed for genuine loyalty. This paper examines that issue within India's e-wallet sector, investigating how cashback and rewards influence not just the frequency of use, but also the strength and quality of users' connection to these platforms. Drawing on insights from Behavioral Economics, Technology Acceptance Theory, and research on consumer trust, the study aims to offer both an evidence-based assessment of current outcomes and a strategic framework for developing more sustainable user relationships that go beyond promotional dependence.

II. OBJECTIVES

This research aims to assess the impact of cashback and reward programmes on e wallet users in India, focusing on whether these initiatives encourage frequent usage and foster long-term loyalty. To achieve this, the study outlines several specific objectives. First, it seeks to understand the long-term effects of cashback incentives on user behavior, comparing those who adopt e-wallets due to promotions with those drawn by ease of use or perceived reliability. Third, it examines the role of trust in shaping the link between incentives and loyalty specifically, whether users who

trust an e-wallet's security and service are more likely to remain loyal when rewarded. Fourth, it explores how different demographic and behavioral factors such as age, income, digital literacy, and prior experience with fintech, affect responses to cashback and reward offers. Finally, the study aims to translate these findings into practical guidance for e-wallet providers, offering recommendations on designing incentive programmes that not only attract users but also support enduring customer relationships. The goal is to move beyond short-term gains and help build loyalty that lasts. This is the central focus of the research on cashback and reward programmes.

III. LITERATURE REVIEW

Behavioral Economics of Financial Incentives. A significant strand of consumer behavior research examines how financial incentives influence decision-making. Drawing on foundational work by Thaler and Sunstein (2009) and insights from Kahneman and Tversky's Prospect Theory, this field reveals that incentives do not affect choices in a straightforward or purely rational manner. Instead, the perceived value of a cashback offer often depends more on its presentation than on its actual monetary worth. This has important consequences for e-wallet companies investing heavily in promotional campaigns. For instance, Saxena and Trivedi (2021) found in an Indian context that small cashback amounts are seen as more valuable when expressed as a percentage of a transaction rather than as a fixed sum. This highlights that the way incentives are framed is just as critical as the incentive itself in shaping user behavior. Technology: The Role of Perceived

Usefulness The adoption of digital tools like e wallets can be understood through established models such as Davis's Technology Acceptance Model (1989) and the Unified Theory of Acceptance and Use of Technology (UTAUT) by Venkatesh et al. (2003). These frameworks suggest that people embrace technology when they perceive it as both useful and easy to use. Cashback and reward programs enhance the perceived usefulness of e-wallets by adding tangible benefits beyond convenience. Singh and Mishra (2022) found in a study of first-time urban e-wallet users that cashback offers were the primary motivator for initial adoption, underscoring how incentives can tip the balance in favor of usage. Consumer Trust in Digital Payment Platforms Trust is a fundamental factor in the adoption and continued use of digital payment systems. It typically rests on three pillars: competence, integrity, and benevolence. Raju and Nair (2020), in their study of mobile payment users, identified trust in the delivery of promised cashback as a key driver of sustained platform engagement. Users need confidence that rewards will be delivered as advertised; without it, their willingness to engage diminishes. The Loyalty-Incentive Tension There is growing debate over whether loyalty driven by incentives is genuine or lasting. Sharp and Sharp (1997) observed that many loyalty programs boost transaction volume without fostering true brand. loyalty or changing consumer attitudes. Similarly, Banerjee and Dey (2023) found in the Indian e- wallet market that users who joined primarily for incentives were significantly more likely to dis- engage when those incentives were reduced, suggesting that their commitment was conditional rather than authentic. Reward Programme Design and Hedonic

Value Beyond financial gains, well-structured reward programs can deliver emotional and psychological satisfaction. Kivetz and Simonson (2002) demonstrated that programs offering choice generate stronger emotional involvement. More recently, Chandra and Bhatt (2024) found that users in tiered reward systems in India re- ported higher satisfaction and lower churn compared to those in basic cashback schemes. This indicates that thoughtful design can make reward programs more engaging and effective.

IV. RESEARCH METHODOLOGY

This study follows a comparative descriptive research design and employs a mixed methods approach to explore user behavior in response to cashback and rewards offered by e-wallets. The central aim is to understand why some individuals continue using e-wallets even when incentives are removed, while others discontinue use once rewards are no longer available. Data was gathered through a convergent parallel design, collecting both numerical and narrative information simultaneously before integrating the two for a more comprehensive analysis. In the quantitative phase, a survey was administered to 150 participants, students, young professionals, and self-employed individuals aged 18 to 45 who are active e-wallet users in India. The questionnaire assessed their perceptions of rewards, trust in e-wallet platforms, frequency of use, future usage intentions, and likelihood of switching services if rewards were reduced. Complementing this, a qualitative phase involved in-depth interviews with selected users: those who remained loyal despite minimal or no rewards, and those who showed low loyalty even when receiving generous incentives. This helped uncover

personal attitudes and emotional responses toward e-wallet usage. The numerical data revealed distinct patterns, while the interview responses highlighted recurring themes. Together, they contribute to addressing the core issue: why e-wallets struggle to retain users over time, even when offering financial incentives, a challenge referred to as the 'Retention Riddle' in India's e-wallet market.

Ethical standards were strictly followed, including informed consent and confidentiality. Findings were reported transparently, regardless of whether they aligned with initial expectations. Data analysis relied on descriptive statistics for the survey results and thematic analysis for interview content. Participants were selected based on their experience with major e-wallets such as Paytm, PhonePe, Google Pay, or Amazon Pay, and having completed at least ten transactions in the past month. India's e-wallet landscape is rapidly evolving, with widespread adoption for everyday expenses like groceries, utilities, and food. Yet, user retention remains a challenge when promotional benefits end. This study seeks to identify the factors driving continued use or prompting switches between platforms.

The research aims to provide clear, practical insights into what fosters customer loyalty and influences platform choice. By addressing these questions, the findings are intended to benefit both service providers and users, contributing to a better understanding of long-term engagement in the growing digital payment ecosystem.

V. ISSUES AND CHALLENGES

The Incentive Dependency Paradox E-wallet providers face a central dilemma: while cashback and rewards attract unpractised users, they also create

dependency. The very mechanism that drives user acquisition, financial incentives can undermine long-term retention. If incentives are scaled back to improve profitability, users may leave; if they are maintained, providers risk unsustainable costs. This creates a cycle where growth is tied to ongoing expenditure. The Trust Deficit in Cashback Credibility. A recurring issue is the gap between promised and received rewards. Studies indicate that users often receive less cashback than expected or encounter technical barriers in claiming rewards. Such inconsistencies erode trust and reduce platform engagement over time.

Demographic Accessibility and the Digital Divide. Incentive programs often fail to reach those most in need. Users with lower incomes or those in rural areas may struggle to understand complex terms or access required services. As a result, initiatives intended to promote digital inclusion may instead benefit more affluent or urban populations, widening existing inequalities. Competitive Pressure: The Race to Zero Intense competition among e-wallet providers has led to an escalating cycle of cashback offers. Each company attempts to outdo the others, resulting in diminishing returns and financial strain. This race has previously led to significant losses for some players in the market. Security Concerns and the Trust-Incentive Interaction Finally, security remains a major concern. No matter how attractive the incentives are, users will hesitate to adopt a platform if they doubt the safety of their funds or personal data. Trust in security and trust in reward delivery are interlinked; both must be present for sustained usage.

VI. RECOMMENDATIONS

There should be shifts from Transaction-

Based to Relationship-Oriented Incentives. E-wallet providers should re- think their incentive strategies by moving beyond rewards tied solely to spending. Instead, they should design programs that foster long-term user relationships such as recognizing user milestones and creating experiences that make customers feel appreciated. **Strengthening Trust Alongside Incentive Initiatives.** Alongside promotional offers, providers must actively build user trust. This involves ensuring cashback commitments are consistently honoured, presenting transparent terms, and maintaining efficient customer support. A trustworthy, working reward carries more weight than a larger one that fails to deliver. **Plan for User Engagement Beyond Promotions.** Providers need to anticipate user behaviour once incentives expire. They should highlight platform features that offer ongoing value and ensure users are aware of them. The aim is to encourage continued use based on utility, not just financial promotions. **Introducing Tiered Rewards That Inspire Progress** Loyalty programs should include multiple levels that offer meaningful benefits and a sense of achievement. Well-structured tiered systems can cultivate user motivation, status, and a feeling of belonging, encouraging sustained engagement. Efforts should be made to remove barriers for users with limited digital skills or unstable incomes. Simplifying redemption, introducing voice-based navigation, designing intuitive interfaces, and creating attainable rewards for low-frequency or small-value transactions can broaden inclusivity.

VII. CONCLUSIONS

This study shows that while cashback and

reward programs are effective for attracting users, their success in building loyalty hinges on trust, service quality, and the value users perceive after promotions end. The Incentive Dependency Paradox reveals a critical weakness in many e- wallet growth strategies. Providers that prioritise trust, reliable service, and lasting value will be best positioned to turn temporary users into loyal ones. In India, the future of e-wallet growth will not favour the platform offering the highest cashback. It will belong to the platform that gives users strong reasons to stay once the incentives end.

VIII. REFERENCES

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