

Final Project 2

Faculty of Management
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Project title

**The Socio-Economic Shift in Saudi Consumer Behavior:
A Comparative Analysis of Daily Purchasing via Digital
Wallets vs. Physical Cash**

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1. Chapter 1: Introduction

1.1. Research Background

As the Kingdom of Saudi Arabia (KSA) moves from a heavily cash-based economy to a global leader in the use of digital payments, its financial environment is experiencing a historic metamorphosis. This change is a systematic pillar of Saudi Vision 2030 rather than just a technology trend. The Kingdom has increased its efforts to improve financial inclusion and transparency under the Financial Sector Development Program (FSDP), with the goal of empowering a generation that was born in the digital age and reducing the shadow economy.

Digital payments have successfully surpassed the 80% threshold of all retail transactions as of 2026, according to the Saudi Central Bank (SAMA). A strong national infrastructure (Mada) and the development of an advanced Fintech ecosystem with both domestic and foreign businesses like STC Pay, Urpay, Mada Pay, and Apple Pay have made this quick adoption possible. These platforms, which provide a smooth "one-tap" experience for anything from luxury shopping to small-scale transactions at neighborhood grocery stores, have blended in well with Saudi citizens' daily life.

However, a major socioeconomic dilemma is introduced by this shift. The "pain of paying"—a emotional barrier that historically restrained consumer spending while using real banknotes—is fundamentally altered by digital wallets, despite its unmatched convenience and security. The physical act of transferring money is a continual reminder of finite resources; on the other hand, digital interfaces frequently obscure the instantaneous sense of loss, which may result in "spendception" or disconnected spending.

The goal of this study is to close the gap between the adoption of technology and its effects on behavior. It compares how Saudi consumers' spending patterns are affected by their shift away from actual currency and assesses if adding budgeting features to these apps is a useful method to combat the growing trend of impulsive purchases. Through an analysis of the transition from "Cash Before" to "Digital Now," this study provides a critical

viewpoint on Saudi consumers' long-term financial well-being in a post-cash world.

1.2. Research Problem

In Saudi Arabia, the shift from paper money to digital interfaces has happened faster than the psychological frames of consumers have adjusted. Even while the technological framework for a cashless society is almost finished, there is still a big "psychological gap" in how people handle their own finances.

The visual experience of physically handing over banknotes during traditional cash transactions causes what behavioral economists refer to as the "Pain of Paying." Spending is naturally controlled by this psychological tension. On the other hand, the "one-tap" feature of Mada Pay or Apple Pay creates a phenomenon that has been dubbed "Spendception" recently (Faraz & Anjum, 2025). This idea explains how the transaction's decreased visibility results in less psychological resistance to spending.

In the Saudi context, several specific problems have been identified:

- **Decoupled Spending:** When customers don't physically touch with money, they become emotionally detached and find it difficult to relate a digital "tap" to a tangible decline in their wealth (Ly & Ly, 2024).
- **Growing Impulse Control Problems:** Studies show that Saudi youth engage in more impulsive buying for every 1% growth in digital wallet usage (Alojail & Khan, 2023).
- **Cyber-Fraud Anxiety:** Although these platforms are convenient, 29% of Saudi customers are still concerned about the rise in financial fraud, which could discourage long-term trust in them (Roy, P. C., 2025).

There is currently a dearth of empirical, localized data evaluating how these digital tools, which are meant to be convenient, can be unintentionally

weakening Saudi people' financial discipline in comparison to traditional cash-based budgeting.

1.3. Research Significance

Because it offers a timely review of the behavioral side effects of the Financial Sector Development Program (FSDP), this study is important. Three major stakeholders share its value:

1.3.1. For Consumers and Society

In order to educate Saudi citizens, understand the "invisible" nature of digital spending, it acts as an instructional tool. Customers can develop better "digital financial literacy" practices by realizing the connection between frictionless payments and impulsive purchases. For example, they can use the tracking and alerting capabilities of applications like STC Pay to recover control over their finances.

1.3.2. For Fintech Developers and Financial Institutions

For providers like Urpay, Mada, and local banks, this study offers critical data on user satisfaction and perceived security. It identifies whether consumers value "convenience" over "budgetary control," allowing developers to design interfaces that promote responsible spending (e.g., real-time budget warnings) rather than just transaction speed.

1.3.3. For Policymakers (SAMA & Vision 2030)

This study offers the essential "behavioral audit" of the Saudi Central Bank's (SAMA) 70–80% cashless ambition. It alerts authorities to the need for new frameworks for consumer protection that address both technical security and the socioeconomic effects of a culture where technological ease may lead to excessive expenditure.

1.4. Research Questions

This study aims to address the following key issues in order to examine the transition from physical currency to digital wallets:

- RQ1: How much does the shift from cash to digital wallets affect Saudi consumers' overall purchasing volume? The quantitative shift in consumption patterns is examined in this question.
- RQ2: What is the relationship between the frequency of impulsive purchases in the KSA retail industry and the "frictionless" aspect of digital wallet payments (such as Mada Pay and Apple Pay)? The psychological absence of "pain of paying" is the main focus here.
- RQ3: Do Saudi fintech apps (such as STC Pay and Urpay) that incorporate tracking and budgeting capabilities help or hurt users' perceptions of their financial control? The usefulness of "Digital Financial Literacy" tools is examined here.
- RQ4: When comparing digital wallets to conventional currency systems, which are the main factors that influence overall consumer satisfaction—perceived ease of use, security, or social influence?

1.5. Research Objectives

This study's main goal is to assess the socioeconomic effects of Saudi Arabia's move to cashless transactions. In particular, the research aims to:

- To examine how the use of digital wallets affects regular spending habits: In order to ascertain whether digital users spend substantially more than those who use physical currency, this objective will compare transaction data with customer self-reports.
- To assess how frictionless payments and impulsive purchases are related: When biometric "taps" or scans take the place of actual banknotes, this goal will quantify the psychological distance from money that results.

- In order to evaluate how well digital budgeting tools promote financial discipline, the study will look at whether real-time alerts and categorization features in applications genuinely assist Saudi customers in adhering to their monthly budgets or if they are disregarded in favor of convenience.
- To gauge customer happiness and confidence in the Saudi Fintech sector: This entails determining the precise characteristics (such as split-billing, security, or cashback) that, as of 2026, have made digital wallets the go-to payment option for more than 80% of transactions.

1.6. Research Hypotheses

Using the behavioral theories of "Pain of Paying" and "Spendception," as well as the preliminary research, this study puts forth the following theories:

- ❖ H1: Using a digital wallet increases Saudi consumers' monthly spending volume by a statistically significant amount.
 - *Justification: Compared to cash, frictionless "one-tap" payments increase transaction totals by lowering the psychological barrier to spending.*
- ❖ H2: The prevalence of impulsive (unplanned) purchasing behavior is positively correlated with the frequency of digital wallet use.
 - *Justification: Apps like Apple Pay and Mada Pay's ease of use (PEOU) and instant pleasure promote impulsive purchasing.*
- ❖ H3: Customer satisfaction and the intention to stick with digital wallets are highly influenced by perceived usefulness (PU) and ease of use (PEOU).
 - *Justification: According to the Technology Acceptance Model (TAM), customers appreciate fintech technologies' ability to save time and provide convenience.*

- ❖ H4: A consumer's perceived financial control is much increased when real-time budgeting and transaction tracking tools are used in digital wallets.
 - *Justification: In contrast to actual currency, digital wallets offer real-time data (push alerts and classification) that can assist disciplined users in better managing their finances.*
- ❖ H5: The association between the use of digital wallets and customer satisfaction is significantly moderated by perceived security and trust.
 - *Justification: The shift away from cash in the Saudi context may be accelerated or halted by cultural concerns about privacy and cyber-fraud.*

1.7. Research Model

This section will be covered in next assignment.

1.8. Research Methodology

This section will be covered in next assignment.

1.9. Scope of The Study

The study is geographically limited to Saudi Arabia, focusing on active users of digital wallets (Mada, STC Pay, etc.) between 2020 and 2026. It covers daily retail sectors such as food, groceries, and services.

1.10. The Suggested Project Structure

- Chapter 1: Introduction and foundational framework.
- Chapter 2: Comprehensive Literature Review.
- Chapter 3: Research Methodology (to be developed).
- Chapter 4: Data Analysis and Discussion (to be developed).
- Chapter 5: Conclusion and Recommendations (to be developed).

Chapter 2: Literature Review

2.1 Theoretical Framework: The Evolution of TAM

The foundation of digital payment research remains the Technology Acceptance Model (TAM) (Davis, 1989). While the original model focused on Perceived Usefulness (PU) and Perceived Ease of Use (PEOU), modern research in the GCC suggests that these are no longer the only drivers. In 2026, the Saudi context requires an Extended TAM that includes:

- **Perceived Security:** With the rise of sophisticated cyber-fraud, trust in the "Mada" and "SAMA" regulatory umbrellas is a primary determinant of adoption (Garrouch, 2025).
- **Social Influence:** In a collectivist society like KSA, the rapid adoption of "Apple Pay" and "STC Pay" is heavily driven by peer behavior and social normalization.

2.2 The Psychology of Spending: "The Cashless Effect"

The transition from cash to digital is not just a change in tools; it is a change in cognitive processing.

- **The Pain of Paying:** Behavioral economists Prelec and Simester (2001) first identified that credit cards decouple the pleasure of consumption from the pain of paying. Physical cash provides a "transparent" loss; you see the wallet empty.
- **Spendception (The 2026 Perspective):** Recent studies Faraz & Anjum, 2025). have introduced the term "Spendception" to describe how digital wallets create an "illusion of liquidity." Because the transaction is biometric (a face scan or thumbprint), the brain does not register the financial outflow as a "loss," leading to a 0.73% increase in spending volume for every 1% increase in wallet usage (Kraiwanit, T., Limna, P., & Wattanasin, P., 2024).

2.3 The Saudi Fintech Landscape: Vision 2030 and Beyond

Saudi Arabia's shift is unique due to the speed of its Financial Sector Development Program (FSDP).

- **Market Growth:** As of early 2026, the Saudi Fintech market is valued at approximately \$3.1 billion, with over 280 active fintech companies (Stucky, M., 2024).
- **The 80% Milestone:** While Vision 2030 originally targeted 70% non-cash transactions by 2025, SAMA data indicates that the Kingdom surpassed this, reaching 79%–80% by late 2024 (Thanh, N. B., 2025).
- **Hyper-Adoption:** Near-field communication (NFC) adoption in KSA has reached a staggering 94%, ranking the Kingdom among the top globally for contactless payments.

2.4 Digital Wallets and Impulse Buying

A critical tension exists between "Convenience" and "Control."

- **Nudging and Notifications:** Digital wallets use "behavioral nudges", such as instant cashback or limited-time offers, to trigger immediate action. Research shows that 32% of users make unplanned payments immediately after receiving a notification (Radhika, H., & Rashmi, C. P., 2026).
- **The Counter-Argument (Digital Literacy):** Conversely, some researchers argue that digital wallets improve financial management. Features like real-time expense categorization and automated budgeting in apps like Urpay provide a level of data transparency that was impossible with physical cash (Helal, M. Y., et al, 2025).

1.11. Conclusion

This section will be covered in next assignment.

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