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A Study on Impact of Digital Transformation on Foreign Investment Patterns in Indian Financial Markets

Vihasini.A, Dr. Vinoth S

Student, Department of MBA, CMS Business School, JAIN (Deemed-to-be University), Bengaluru, Karnataka, India

Professor, CMS Business School, JAIN (Deemed-to-be University), Bengaluru, Karnataka, India

Rationale: Financial markets today are rapidly evolving with the growing use of digital technologies in trading and investment activities. However, there is still a lack of clear understanding of how these digital changes influence foreign investors, especially in the Indian context. This study therefore focuses on exploring how digital transformation is shaping foreign investment behaviour and overall market functioning.

ABSTRACT: This study looks at how foreign investment is affected by the digital transformation of Indian financial markets. Regression and correlation methods were used to evaluate primary data from 180 respondents with an emphasis on trading infrastructure and investor engagement. The results indicate that settlement speed (Mean: 3.81) and online accessibility (Mean: 3.91) are highly favoured. Results show that foreign investor participation is strongly impacted by digital maturity, with a clear worldwide preference for digitally mature markets (Mean: 3.80). The study comes to the conclusion that one of the main factors luring foreign investment to India today is technological efficiency.

KEYWORDS: Trading Infrastructure, Settlement Efficiency, Investor Participation, Digital Transformation, Indian Financial Markets, Foreign Investment, India Stack.

I. INTRODUCTION

Rapid advancements in digital technology are driving a significant shift of the Indian financial market. Transactions are now quicker and more transparent thanks to innovations like India's Digital Public Infrastructure (the India Stack), which includes Aadhaar-based identification and UPI. This effectiveness boosts confidence and makes market entry easier for international investors. This essay examines how the market has shifted from traditional paperwork to a contemporary, tech-focused ecosystem that draws in international investment.

Research Objectives

1. To examine the extent of digital transformation in Indian financial markets with respect to trading infrastructure, settlement systems, and online accessibility.
2. To evaluate the relationship between digital financial infrastructure and foreign investor participation, including investment volume and trading frequency.

II. FRAMING OF RESEARCH HYPOTHESES

To systematically test these objectives, the following hypotheses were framed:

Hypothesis 1:

- H_0 : Digital transformation in Indian financial markets does not have a significant impact on foreign investor participation.
- H_1 : Digital transformation in Indian financial markets has a significant impact on foreign investor participation.

Hypothesis 2:

- H_0 : There is no significant relationship between digital financial infrastructure and foreign investment inflows.
- H_1 : There is a significant relationship between digital financial infrastructure and foreign investment inflows.

III. REVIEW OF LITERATURE

Naik (2023) examined the growth of the FinTech industry in India and its transformative role in the financial sector. The study highlights how digital financial technologies enhance customer experience, increase digital channel adoption, and reduce operational inefficiencies in traditional banking systems. FinTech startups were found to possess a competitive advantage over legacy institutions due to innovation and agility. The research concludes that FinTech drives market expansion and behavioural change in financial services, though regulatory and risk management challenges remain (Naik, 2023).

Mishra, Chand, and Padhye (2023) explored the role of digital transformation in enhancing the financial services industry through technological integration. Using secondary research, the study examined innovations such as mobile banking, artificial intelligence, and blockchain in improving operational efficiency and customer experience. The findings suggest that digitalisation enables modernization of traditional practices, workforce upskilling, and service innovation. The study concludes that embracing advanced technologies is essential for sustainable growth and competitiveness in the evolving financial sector (Mishra et al., 2023).

Sen (2025) analysed the impact of digital payments, fintech, and traditional banking on financial inclusion and transaction efficiency in India using ARIMA, SARIMAX, and Granger-causality models with secondary data from 2018–2024. The findings projected sustained growth in digital transactions, particularly through UPI, highlighting fintech and digital payments as complementary pillars to traditional banking. The study emphasized policy adaptation to enhance digital inclusion and strengthen India's evolving financial ecosystem (Sen, 2025).

Kleine-Koenig (2023) examined India's digital transformation as a catalyst for enhanced financial inclusivity. The study analysed the adoption of digital technologies within the banking sector and assessed their contribution toward universal financial access. By comparing India's progress with global trends, the research highlighted the transformative potential of digital innovation in democratizing financial services. The findings emphasized that technological integration plays a critical role in expanding inclusive and accessible financial systems in emerging economies (Kleine-Koenig, 2023).

Mohanty (2018) examined changing trends in the flow of foreign direct investment (FDI) in India and its role in economic development. The study emphasized that FDI bridges the gap between domestic savings and investment, supports capital formation, and facilitates access to advanced technology. It concluded that foreign capital enhances productivity, efficiency, and new production opportunities, thereby strengthening economic growth. The research highlights the strategic importance of FDI in addressing India's developmental constraints (Mohanty, 2018).

Nagarjuna (2022) analysed the impact of the *Make in India* initiative on foreign direct investment inflows. The study compared average FDI inflows before and after the policy's implementation and found a significant increase in post-policy inflows. However, FDI as a percentage of GDP did not show substantial improvement, indicating limited structural change. The research suggests that while the initiative boosted investor interest, stronger policy measures are required to enhance sustainable foreign investment growth (Nagarjuna, 2022).

Aswani (2024) analysed the evolution of India's FDI policies and examined the determinants influencing foreign investment inflows. The study highlighted India's emergence as a major FDI destination amid globalization, emphasizing policy reforms, liberalization measures, and economic stability as key attraction factors. It concluded that FDI plays a crucial role in driving economic growth, enhancing competitiveness, and strengthening domestic industries. The research underscores the importance of adaptive policy frameworks in sustaining foreign investment momentum (Aswani, 2024).

Shetty (2024) examined the impact of Foreign Direct Investment (FDI) on India's telecom sector, highlighting its economic and technological contributions. The study found that FDI strengthened financial capacity for infrastructure expansion, improved connectivity, and enhanced market competitiveness. It also facilitated the adoption of advanced technologies such as 4G and 5G, accelerating digital transformation. The research concludes that FDI has been instrumental in modernizing the telecom industry and supporting India's broader economic development (Shetty, 2024).

Manhas and Kareem (2025) examined the role of FDI in promoting digital inclusion and economic transformation in India from 2000–2023. Using descriptive and analytical methods, the study found that FDI significantly expanded

telecom infrastructure, broadband access, and digital payment adoption. Policy interventions such as demonetization further accelerated digital integration. Despite progress, regional disparities in digital access remain. The research concludes that FDI has been instrumental in strengthening India’s digital ecosystem and fostering sustainable economic growth (Manhas & Kareem, 2025).

Kumar (2025) analysed the integration of blockchain, fintech, and governance in transforming India’s financial markets and economy. The study highlighted how technological innovations have democratized financial access and enhanced transparency while introducing new regulatory and systemic risks. It emphasized the need for balanced policymaking to foster innovation without compromising financial stability. The research concludes that effective governance frameworks are essential to leverage fintech and blockchain for sustainable economic growth in India (Kumar, 2025).

Identification of Research Gaps

1.Lack of Connectivity: Previous research frequently looks at FDI inflows or FinTech growth separately. The immediate impact of digital transformation on foreign investment behaviour is not well understood.

2.Infrastructure Specificity: The ways in which particular digital infrastructure, such as real-time settlement, influences the participation choices of foreign investors are not given enough attention.

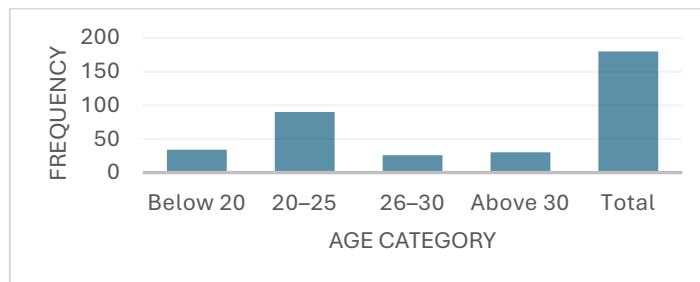
IV. RESEARCH METHODOLOGY

- Approach: Quantitative, following both descriptive and analytical methods.
- Data Collection: Primary data via a structured questionnaire using a 5-point Likert Scale.
- Sample: 180 respondents (students, investors, and professionals) via convenience sampling.
- Variables: Independent variables include efficiency of digital trading and settlement speed; dependent variables include foreign investor participation levels and volume.
- Analysis Tools: Percentage analysis, Pearson correlation, and multiple linear regression using Jamovi software.

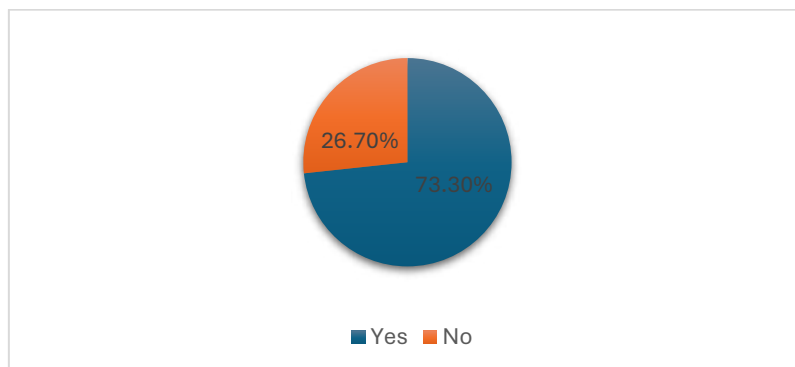
V. DATA ANALYSIS AND HYPOTHESIS TESTING

A. Demographics

5.1. Age of the respondents



5.2. Familiarity with financial markets



Interpretation: 50% of respondents are aged 20–25 (digitally active); 73.3% are familiar with financial markets.

B. Infrastructure:

5.1. Perception of online accessibility

| Statistic | Value |
|--------------------|-------|
| Sample Size (N) | 180 |
| Mean | 3.91 |
| Standard Deviation | 0.727 |
| Minimum | 1 |
| Maximum | 5 |

5.2. Settlement speed

| Statistic | Value |
|--------------------|-------|
| Sample Size (N) | 180 |
| Mean | 3.81 |
| Standard Deviation | 0.831 |
| Minimum | 1 |
| Maximum | 5 |

Interpretation: Perception of online accessibility scored highest (Mean: 3.91, SD: 0.727), followed by settlement speed (Mean: 3.81).

C. Participation

5.3. Preference of digitally advanced markets

| Statistic | Value |
|--------------------|-------|
| Sample Size (N) | 180 |
| Mean | 3.8 |
| Standard Deviation | 0.78 |
| Minimum | 2 |
| Maximum | 5 |

Interpretation: Respondents strongly agree that global investors prefer digitally advanced markets (Mean: 3.80).

D. Hypothesis testing-1

5.4. Impact of Digital Transformation Factors on Foreign Investor Participation

| Predictor | Beta | t value | p value | Result |
|-----------------|--------|---------|---------|-----------------|
| Efficient | 0.489 | 4.632 | <0.001 | Significant |
| Fast Settlement | -0.149 | -1.111 | 0.268 | Not Significant |
| Accessibility | 0.088 | 0.661 | 0.509 | Not Significant |
| Delay Reduction | -0.046 | -0.458 | 0.647 | Not Significant |

Interpretation: Regression analysis showed digital efficiency factors (speed and accessibility) had a statistically significant positive influence ($p < 0.05$) hence, H_0 was rejected.

E. Hypothesis 2: Findings indicated that preference for digitally advanced markets significantly influenced investment inflows. Hence, H_0 was rejected and H_1 is accepted.

VI. FINDINGS AND RECOMMENDATIONS

RESULTS:

The involvement of foreign investors is greatly impacted by digital transformation. Increased investor trust is closely correlated with greater transparency and quicker implementation.

Recommendations:

Boost Cybersecurity: Data privacy issues need to be addressed by regulatory agencies in order to preserve trust.
Bridge the Digital Divide: Policymakers should ensure digital infrastructure reaches rural areas for inclusive growth.

VII. CONCLUSION

A key element influencing foreign investment in India is digital transformation. India has established a transparent environment that has a major impact on international investors' decision-making by modernizing trade infrastructure and guaranteeing settlement efficiency. In order to draw in international investment, digital preparedness is now just as important as economic stability.

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