

IMPACT OF DIGITAL PAYMENTS ON THE CONSUMPTION

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ABSTRACT

In the era, which has its most recent inclusion “the UPI- based transfer” to the already advanced digital payments system, we are stepping up towards an economy which facilitates a more convenient, effective and secure payments environment. Digital payments gives the users a whole new set of opportunities. Our study is based on understanding the impact of such digital expenditure on the consumption of individuals in a micro level case study based in Bangalore through a questionnaire.

Keywords: Digital Payment, Consumption, UPI, Bangalore

INTRODUCTION

On 11th April 2016, the National Payments Corporation of India (NPCI) launched the Unified Payments Interface (UPI) which opened up scope for a better mode transact in the market, alongside mobile wallets such as Paytm and Amazonpay, credit/debit cards and other modes of internet banking. Demonetization which took place on 8th November 2016 has impacted the Indian economy to a great extent, which was aimed at retrenching illicit economic activity prevalent in the Indian economy. It was a process in which the Government of India withdrew the old currency notes (Rs 500 and Rs 1000) and made it invalid post-midnight of 8th November 2016. Due to a shortage of cash during this period, it caused disruption in the economy and thus paved way to provide a platform for the growth of digital payments. It has been observed post-demonetization resistance towards digital payments has marked a reduction. Digital payments were considered as an alternative and alongside it had several other benefits such as convenience, ease, ability to track expenses, etc., so people opted this as an

alternative to cash. This study aims at understanding the consumer behavior after the introduction of digital payments, in Bengaluru.

REVIEW OF LITERATURE

- **(Huang, 2017)** This paper studies the impact of digital payments on China and US. It specifically concentrates on NFC, QR code payments and online banking. There is a significant improvement in the lifestyle of people and it has promoted development in online shopping, financial institutions, and third-party payments. Mobile payments are the most convenient, low cost and easier way to transact with money as most of the people carry mobile 24 hours a day. The type of e-cash used in different countries depend on the situations prevailing in each country, such as China prefers QR code payments due to complicated application process of credit cards, on the other hand, US prefers to use credit cards or NFC credit cards.
- **(Singh & Rana, 2018)** This study analyses the impact of digital payments from the consumer point of view in Delhi. Due to demonetization, India got a platform for digital payment/digital wallet facilities, which was considered as an alternative to cash for the Indian customers. There was a sudden growth of 271% for the digital wallet companies. Digital payment or wallet companies became an attractive destination even for the foreign investors during this period. The adoption of digital payments was analyzed based on the impact on demographic factors and consumer perception. 150 respondents were surveyed and it was concluded that factors such as gender, age, profession, and annual income had no significant difference in the perception of digital payments, but education of such digital payments/wallets caused a significant difference.
- **(Credit Suisse, 2018)** Launching of digital payments app, there has been an increase in the number of transactions for 8 times which is equivalent to digital transactions made by Axis Bank. Those number will increase in the future when Whatsapp enters this venture. By 2023, digital payment will reach up to \$1 trillion which is facilitated by public infrastructure such as UPI and Aadhaar which are open-architecture. As there are 800 million bank accounts linked with a mobile number, even banks expect to tie up to 50-70 % of cashless transactions.
- **(Zandi, Koropecjy, Singh, & Matsiras, 2016)** There has been an increase in the use of electronic payments which reflects in the study between 2011 and 2015 done in over 70 countries. Some of the aspects include an increase in GDP, future economic growth.

Even a significant increase in spending habits among the people was observed thus increasing job opportunities for people. Security, convenience, and transparency are some of the major factors to be included while considering e-payment.

The growth of the same gives merchants a healthy competition. As a result of this, both banks and consumers get benefited.

- **(Mbogo, 2010)** This study was based in Kenya and is about understanding the impact Mobile payments had on the success and growth of Micro- Business. Marian Mbogo had conducted this study on the basis of the theory of Technology Acceptance Model (TAM). The survey conducted covered 409 Micro-businesses, the questionnaire captured the variables such as perceived accessibility, low cost, security, convenience and support from Mobile operators and the government to establish their impact on Behavioral intention to use and subsequently to actual usage and success of the business.

RESEARCH DESIGN

- **STATEMENT OF PROBLEM:**
Digital payments systems have provided users with a whole new scope to spend in the market by providing an alternative to conventional cash transactions. These transactions have significantly inflated in numbers post demonetization in India. The economy has reacted to this increase in cashless transactions with certain visible changes. This study aims at specifically understanding the impact digital payments have caused on the consumption pattern amongst the individuals earning income in Bengaluru.
- **SOURCES OF DATA:**
This study is of Explorative in nature where data is collected both from primary and secondary sources of data. The primary data is collected from 52 respondents, who are earning income in Bengaluru, through a self-structured questionnaire.
- **HYPOTHESIS:**

H0: There is no significant influence of digital payments in the expenditure of an individual.

H1: There has been a significant impact on the consumption pattern of people earning in Bengaluru and digital payments.

- DATA ANALYSIS TOOLS: Basic Graphical representations.

- EXPECTED OUTCOME:

If we either establish that digital payments have a significant impact on the monthly expenditure on salaried individuals by analyzing the data collected, then we would project this result at a microeconomic market level that Digital payments have impacted the consumption in a significant way. Or, we would conclude our research stating that there is no significant relationship between expenditure and digital payments.

- LIMITATIONS:

- This study is confined only to people earning in Bengaluru and thus it cannot be generalized.
- The timing of the study is limited to monthly variables; this gives the opportunity to conduct a more standard annual research.
- Increase in consumption could be attributable to various factors, streamlining the impact of Digital payments could be a challenge, which could be solved by understanding how Information gathering agencies have created reports on growth in GDP pertaining to the use of cashless transaction.
- Monthly expenditure and consumption are driven by choice to some extent. A solution to this would be to focus on Need-based expense rather than a Want-based expense.
- Due to heterogeneity in the sample population, we face a challenge in forming a standard conclusion, which could be addressed by taking a refined approach in our further study.

DATA ANALYSIS AND INTERPRETATION

TABLE 1: INCOME SLAB

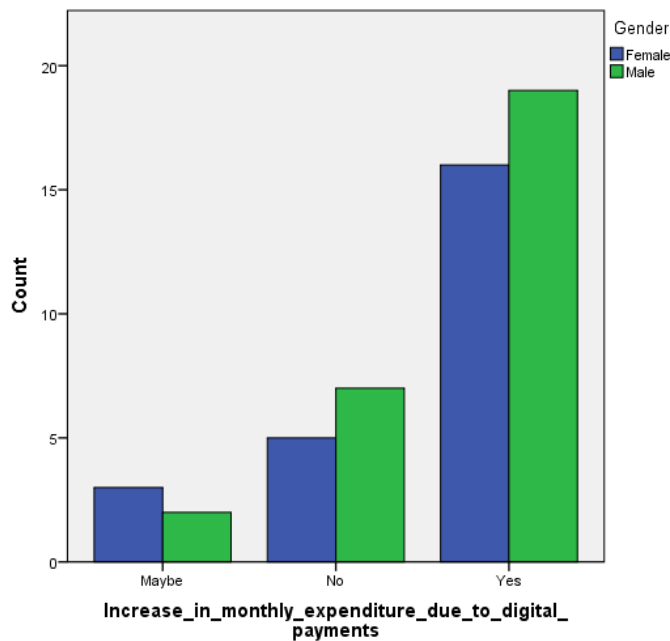
| | Frequency | Percent | Valid Percent | Cumulative Percent |
|-----------------|-----------|---------|---------------|--------------------|
| Below ₹10000 | 17 | 32.7 | 32.7 | 32.7 |
| ₹10001 - ₹15000 | 5 | 9.6 | 9.6 | 42.3 |
| ₹15001 - ₹20000 | 2 | 3.8 | 3.8 | 46.2 |
| Above ₹20000 | 28 | 53.8 | 53.8 | 100.0 |
| Total | 52 | 100.0 | 100.0 | |

This

primary data was collected by way of circulating a well-structured questionnaire among individuals earning income only in Bangalore. The above table represents the frequency in which the data is collected from varied groups of individuals earning income in Bangalore. The total numbers of respondents are 52, in which 28 are male and 24 are female. On the basis of income, the highest number of responses has been received from individuals earning income above Rs 20,000 which is 28 and the number of responses received from individuals earning Rs15,001-Rs20,000 is only 2. It can also be observed that there are 5 and 17 responses from individuals earning an income of below Rs10,000 and Ra15,001-20,000 respectively.

The analysis of variables such as average monthly expenditure, amount of expenditure through digital mode and number of transactions through digital payments are compared together to form a conclusion.

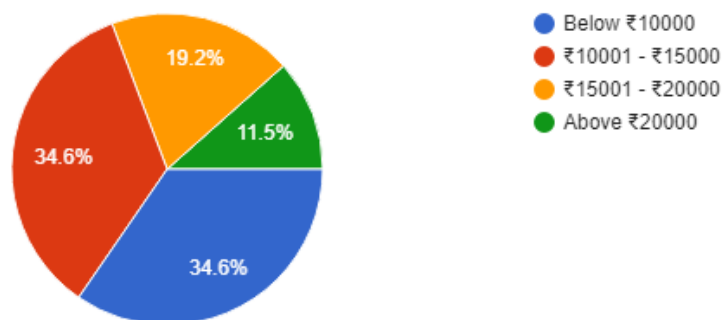
GRAPH 1: RELATIONSHIP BETWEEN GENDER AND THEIR OPINION ON INCREASE IN MONTHLY EXPENDITURE DUE TO THE INTRODUCTION OF DIGITAL PAYMENTS



Based on the data collected it can be analyzed that individuals largely consider that their expenditure on a monthly basis has increased after the introduction of digital payments, as the highest number of individuals from both the gender have responded positively.

GRAPH 2: TENTATIVE AVERAGE MONTHLY EXPENDITURE

52 responses

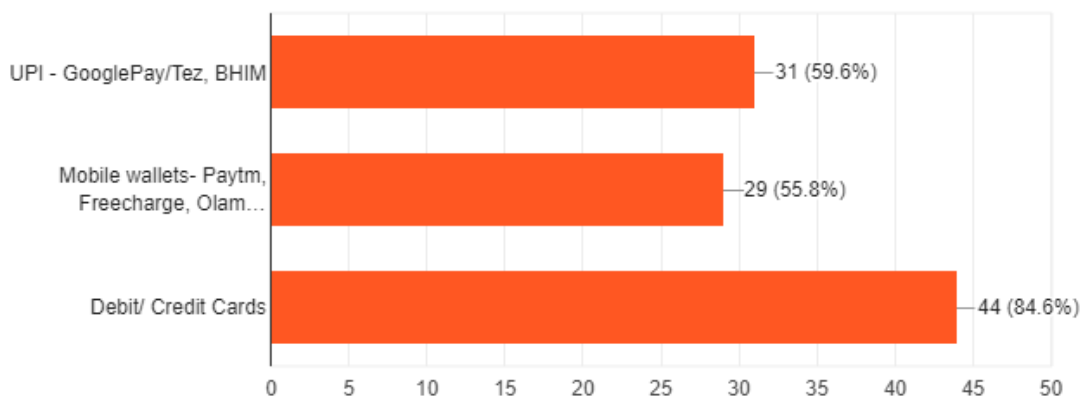


As most of our responses recorded was from lower- middle income category, the expenditure brackets also turned out to be within the expected slabs of (in rupees) below 10,000, 10,001-15000, 15001-20000, above 20000 respectively. Our response chart shows the concentration to below 10,000 slab and 10,001- 15,000 slab.

From this we could assert that the impact of expenditure of this section of our sample population would have significant effect on our conclusive analysis.

GRAPH 3: PREFERRED DIGITAL PAYMENT MODE

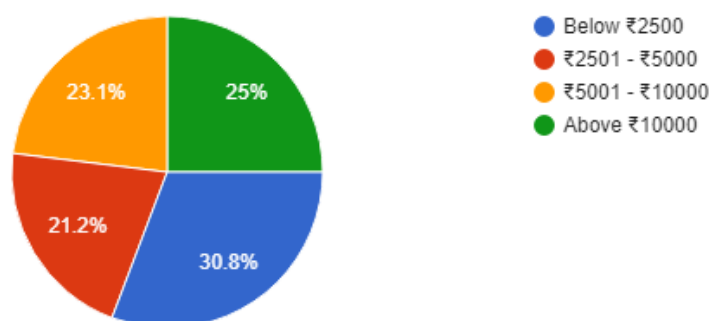
52 responses



The respondents to our questionnaire reveal that most of them use Debit/ Credit Cards to transact their monthly expenditure. Whereas instant UPI transfers seems to be preferred much less. The reasons to justify this would be that UPI are relatively the most recent addition to the class of digital payments and its coverage is constrained as it is still an emerging mode of payment. Though mobile wallets were preferred because of the convenience and ease it possessed, according to the data collected UPI usage is relatively higher than that of mobile wallets, which could be because of the drawbacks mentioned further in the research paper. Awareness of the effectiveness of UPI transfers and the benefits it provides to its users could in future increase the number of preferred users.

GRAPH 4: AVERAGE AMOUNT UTILIZED IN CASHLESS TRANSACTIONS

52 responses



From the above graph which represents the amount involved in transactions used in cashless mode we learn that our sample population is equally distributed within the slabs we had set.

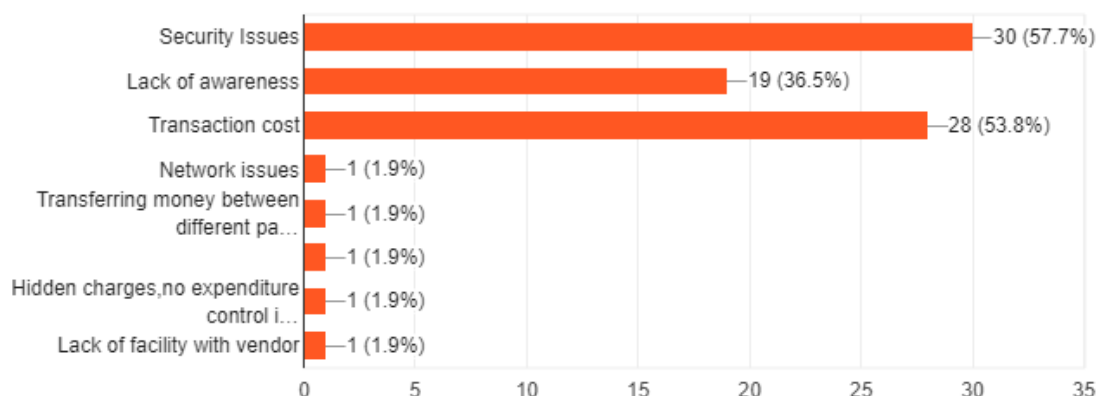
But a closer look into the responses reveals that 69.3% of the population spends an amount less than 10,000 through cashless modes which comprise of samples from all income slabs. Despite 53.8 % of our sample group being in the income slab rate of 20,000 and above, we learn that expenses in cashless mode amounting more than 10,000 are only upto half of that percentage i.e. 25% which leads us to ponder that either our sample population is leveraged in the cash transactions or a significant part of their income is routed to savings. This provides scope for further exploration into our study. Either way these graphs gives reasons to validate our null hypothesis.

GRAPH 5: REASONS FOR DRAWBACK(S) OF DIGITAL PAYMENTS

Though there are several advantages of using digital payment methods, it has certain drawbacks due to which people do not prefer to transact 100% in a cashless mode. By way of survey, it was found the following reasons individuals consider as drawbacks for digital payments:

1. Security issues
2. The issue in transferring amounts from different mobile wallets.
3. Network issues
4. Hidden internet handling charges.
5. Lack of facilities provided by the vendor
6. Lack of control over the expenditure.

52 responses



Shown above is the perceived drawbacks the respondents have for the digital transactions. Most of them think security threat and transaction cost as major drawbacks to digital modes of

payments. Now, Transaction cost involved with payments could vary from bank to bank; however, in the case of UPI transfers, there are very negligible. The table below substantiates that:

| Amount | Charges |
|-------------------------------------|---------------|
| Up to Rs 1000 | No Charges |
| Above Rs 1,000 and up to Rs 10,000 | Rs 1 plus GST |
| Above Rs 10,000 and up to Rs 1 lakh | Rs 2 plus GST |
| Above Rs 1 lakh and up to Rs 2 lakh | Rs 3 plus GST |

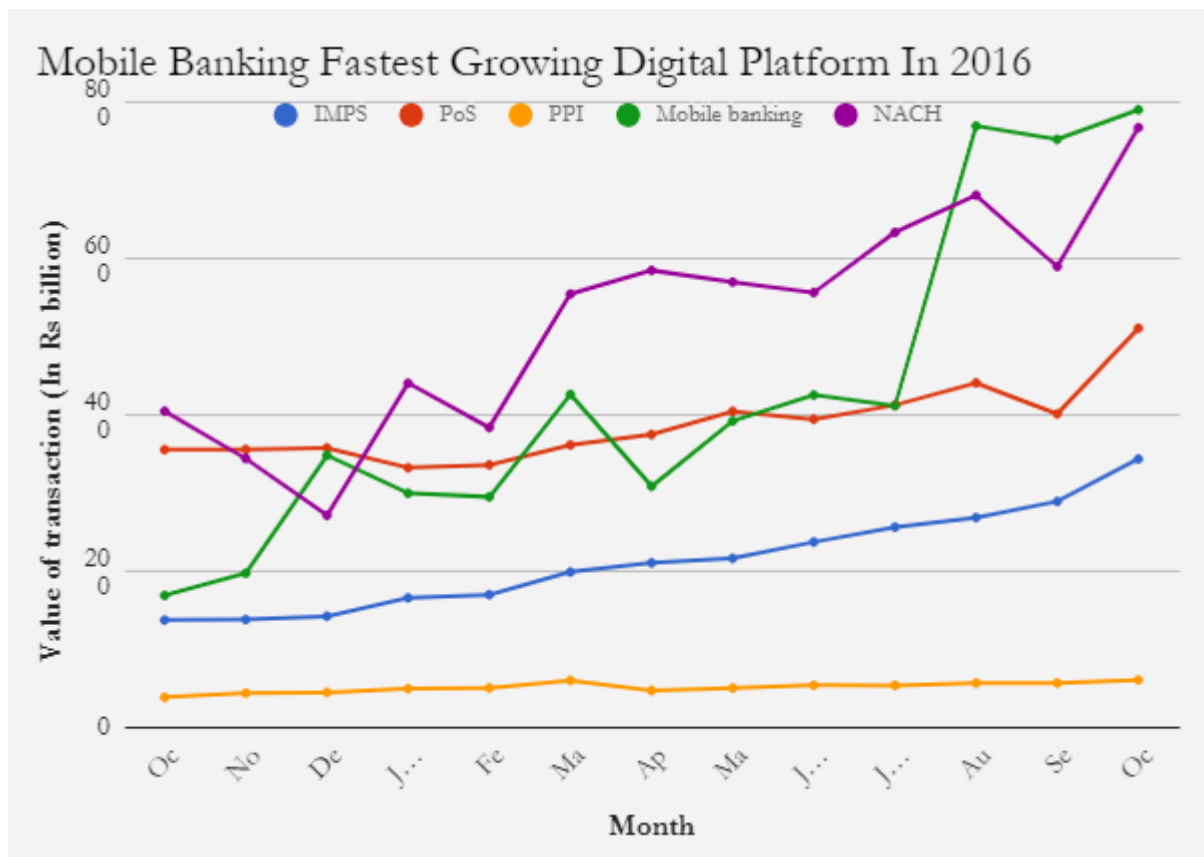
(Source: The Economic Times)

And for the regulations there is a Digital Payments Division under the Ministry of Electronics and Information Technology ensures in providing the users with a reliable environment to transact.

FINDINGS AND SUGGESTIONS

We found that there are several factors that effect expenditure of an individual and again various approaches to analyze that. We learn that there is a difference between behavioral intention to use and actual usage of digital modes of payments. More than half of our respondents are apprehensive with the secure environment the digital payments platform has to provide them, so they do consider transaction cost as a drawback. However, based on the secondary data analyzed from the report of RBI, there is an increase in the number of digital transactions post-demonetization.

We learn that with the elimination of these perceptions on drawbacks and being well-informed would significantly improve the impact of digital payments on consumption. We would like to further research by exploring into the study to understand the pattern of expenditure of individuals to form a refined conclusion.



(Source: [Monthly Bulletins for 2016](#), Reserve Bank of India)

CONCLUSION

With the study that we have conducted we establish that for most of the respondents, cashless mode of expenditure is not forming a major part of their expenditure. Which drives us to the conclusion that there is no significant impact of expenditure through digital modes on consumption in the study we have conducted so far, this proves our null hypothesis (H_0). The reason for not opting digital payments which is more convenient for expenditures, largely pertains to the perceived drawbacks that the respondents had to digital payments.

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