

# V-CMT

INTERNATIONAL MULTI-DISCIPLINARY CONFERENCE

## Conference VCMT-2023

Theme And Sub theme:

**FINTECH CONNECT: INDIAN PATHWAY TO FINOVATE  
ACTION @ 75: DIGITAL INDIA  
CONFERENCE PROCEEDING**

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**Fintech innovation (Digital Payment) promotes household consumption  
Keynesian Approach- during & before COVID-19 Pandemic: A Case of  
Chembur, a suburb in Mumbai**

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**Abstract**

The SARS COV2 pandemic has affected the lives and livelihoods of millions of people and has slowed down the global economy as a result. The pandemic has hit certain social groups hard due to travel restrictions/bans and other regulations affecting income and consumption patterns. The objective of this article is to determine whether the pandemic has had an impact on the income and consumption habits of residents of Chembur. To research, structured two set questionnaires were sent to the same set of respondents and data was collected from a sample of 200 households- respondents residing in Chembur . Using the paired-samples t-test (parametric), the epidemic was found to have a significant impact on consumption patterns and incomes in Chembur. While a Keynesian approach to determining income shows that the MPC was 0.42 before the COVID-19 pandemic and 0.38 during it. This suggests that consumers had marginally higher propensity to consume in the pre-pandemic when compared to the pandemic period. Overall, the study shows that while the pandemic had severely affected consumers with reduced incomes and consumption levels, the support of e-Commerce, the supply chain of goods, and also online payment facilities had gained popularity, in the recent years that helped the consumers maintain their levels of consumption in the pandemic period, which would have otherwise, come down due to restriction in physical movement of goods and people.

**Keywords:** COVID-19, Consumption expenditure, MPC, Fintech, digital payment

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## Introduction

The forced partial or total shutdown of countries had serious economic consequences. In addition to the deaths caused by COVID-19, several countries experienced factory closures, production shutdowns, essentially business as usual, the loss of millions of jobs and financial crises. Every economy, whether prosperous, developing or underdeveloped, is struggling to fight against COVID-19. Every day, a large number of people were infected with COVID-19 and this pandemic caused over a thousands of deaths on a daily basis. The main cause of this high death rate was that the disease remained untreated for a very long time. There is currently no known scientifically approved treatment for patients with COVID-19. The global economy has faced a major financial challenge due to the COVID-19 epidemic. Governments used social distancing and imposed restrictions in their countries to prevent the spread of COVID-19. Governments incurred a cost, when they shut down because there is no business.

Many researchers and economists had even warned about the economic impact of global diseases and pandemics, such as Jonas (2013) and Fan et al. (2016). Fan et al. (2016), even a moderately severe pandemic can cause 2 million or more deaths worldwide. The authors estimate the costs of fighting pandemic flu at about 0.2 to 2 percent of global income, but they are low.

Even if they did not endure as much suffering as after the outbreak of COVID-19, governments seem to have learned nothing from past pandemics. It is estimated that COVID-19 will cost the global economy \$8.8 trillion in fiscal year 2020-2021. The World Economic Forum predicts that global GDP growth will slow to around 2 percent in the 2020-2021 fiscal year, the lowest level since the 2008-2009 global financial crisis. The extent of the economic disaster caused by COVID-19 can be understood if we consider that the economic growth of various countries is expected to be 5-10 percent in the fiscal year 2020-2021.

The purpose of this paper is to examine how the COVID-19 epidemic has affected income levels, the consumption expenditure of the people and the payment options for the transactions put through by them in Chembur, Mumbai. This study was inspired by many studies on pandemics and epidemics that focus on their economic consequences.

There was a focus on the payment options also as people feared exchanging physical cash, which could cause the spread of virus and also, with remote shopping options, remote payment options gained popularity, with the initiative of demonetisation, which evolved and gained popularity over

the period in the country.

According to ET BFSI (June 24, 2021), digital payments have transformed the outlook of the country. In fact, thanks to UPI, India has made a name for itself in the global market for digital payments. From paying utility bills to shopping for groceries, digital payments are also being used by small backcountry businesses. During his year, India saw a surge in digital payments. According to a recent report by ACI Worldwide and Global Data, India has overtaken the US and China as the world's largest real-time digital payments due to the promotion of both P2P and merchant payments.

According to previous literature, fintech can have a far-reaching impact on people's lives. Demertzis, Merler, and Wolff (2018) suggest that fintech innovations can greatly overcome the problem of information asymmetry and improve the efficiency of financial resource allocation through big data analysis and processing. It also provides investors with education and training on innovative backend services to drive technological advances and foster business innovation (Haddad & Hornuf, 2019). This allows finance to better serve the real economy, boost economic performance and drive productivity growth (Koffi, 2016). ; Broby, Hoepner, Klausmann, et al., 2018). In addition, fintech innovations will accelerate the replacement of traditional currencies with electronic money, provide consumers with payment convenience, reduce payment costs, provide consumer credit, and stimulate consumer finances by stimulating impulse consumption. multifaceted consumption (Beck, Pamuk, Ramrattan, and Uras, 2018; Riley, 2018). Especially as COVID-19 sweeps the world, people are changing their attitudes towards fintech applications (Al-Nawayseh, 2020; Le, 2021; Le, Yarovaya & Nasir, 2021). and experiential.

*There is evidence that fintech is playing a positive role in the COVID-19 epidemic (Liu, Pan, & Yin, 2020; Xu, Gao, & Zhang, 2021).*

The obvious question is, will fintech boost household consumption? And how will this affect household consumption? The primary relevant work is Li, Wu, and Xiao (2020). Using data from the CPHS, published by the CMIE on Household Income, indebtedness, creditworthiness and primary data obtained from the residents of Chembur, Mumbai, Li et al. (2020) documents that fintech facilitates household consumption through mechanisms for online shopping, digital payments, obtaining online loans, purchasing financial products, and business insurance on the Internet. But as we know, household consumption is mainly dependent on income. It is also necessary to consider how the application of FinTech will change the income structure of households. Therefore, unlike previous studies, this paper uses primary elicited form 200 respondents through a structured questionnaire administered during and before the lockdowns imposed to examine the link between

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fintech adoption and household consumption. Compared to CPHS, primary data was more useful for current study because it includes basic behavioural characteristics of households rather than economic characteristics. With this data, we will continue to explore whether fintech can stimulate increased household income.

### ***Consumption Patterns before and during the COVID-19 Pandemic***

Primary, secondary and tertiary needs are met in a variety of ways. Most important condition is, being able to survive successfully, a basic requirement that must be met. The three basic needs are clothing, food and shelter. Basic needs, including these Education, healthcare and leisure are supported by secondary needs. Tertiary needs are higher education demands are demands made in relation to lifestyle or status issues. In general, consumer behaviour of the masses may have been before the COVID-19 epidemic. Necessities and primary needs have been the ability of the poor to do only the bare minimum. Major needs are addressed as much as possible. Consumer habits, but secondary needs may not be met. Tertiary requirements about lower class consumer behaviour are not satisfied. The main needs are: The community primarily fulfils its demands, followed by secondary and tertiary needs.

Fintech innovation has played a key role in boosting consumption. The final consumption rate in the surveyed area gradually increased from 49.6% in 2011 to 54.3% in 2020. Meanwhile, the Digital Inclusive Financial Index, which tracks the level of fintech development, rose sharply from 40% in 2011. In 2020 it rose to 341.22. This phenomenon may not be a coincidence, but may be closely related.

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### **Review of Literature**

According Mohammad Nazmus et al;(2022) Economies around the world have suffered enormous losses due to epidemics and diseases. The authors concluded that the impact of the pandemic is enormous, with one large pandemic potentially costing up to \$3 trillion.

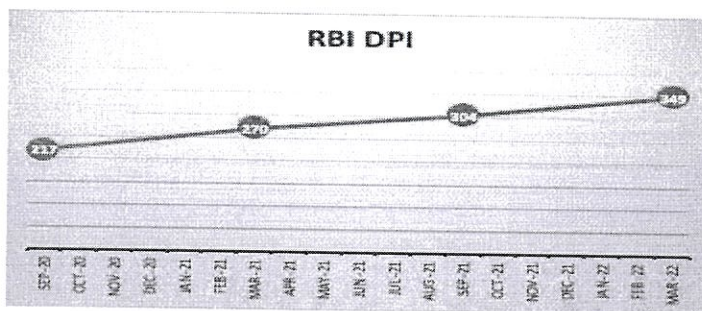
The authors compared destruction caused by a pandemic to destruction caused by natural disasters.

According to a study by Baker et al. (2020) found a negative association between levels of social exclusion and amount spent, with pandemics influencing consumption patterns and thus consumer behavior. A study by Chen et al. (2020) examines how the COVID-19 outbreak impacted consumption in China. The study received daily transaction data from 214 different cities. According to the findings, the average consumption of offline goods and services in China fell by 32% between late January and early April 2020. Compared to the previous year, spending on goods and services

decreased by 33% and 34% respectively. The industries permanently hit by the recession were restaurants, entertainment and travel, which each experienced a 59% decline. Wuhan, where COVID-19 first emerged, recorded the biggest drop in consumption of up to 70%. The findings show that consumption reacted negatively to the daily fluctuations in the severity of the pandemic, with offline consumption in China increasing 1.2 times in 2019. During COVID-19 in France, Booney et al. (2020) examine changes in customer behavior before and after an event. Research shows that customers shop online when they are surprised, easing the overall impact.

A study backed by IBM (2020) in April found that the COVID-19 pandemic is having a significant impact on people's mobility, purchasing power and ability to participate in activities. Survey results showed that the majority of respondents say they used public transport infrequently or not at all, which could increase demand for private vehicles. However, the economic disaster caused by COVID-19 made it impossible for consumers to shop. The results of a study titled "Impact of Epidemics and Pandemics" found that COVID-19 has had a severe impact on consumer behaviour in the United States, with long-term impacts on various businesses including retail, transportation and travel. will make an impact.

### RBI-Digital Payments Index



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Source: <https://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/PR87409BF18A37EC94B1AB4FB27D4495EDB58.PDF>

The sub-parameters against which the digital payment index is measured are:

- Payment enablers (mobile, Adhaar, bank accounts, merchants)
- Payment infrastructure – demand side: debit cards, credit cards, prepaid payment instruments, FASTags
- Payment infrastructure – supply side: bank branches, business correspondents, ATMs, PoS terminals, QR codes, intermediaries
- Payment performance: Volume, value, unique users, currency in circulation, cash withdrawals



- Consumer centricity: Awareness, declines, complaints, frauds, system downtime

### *Economic effect of pandemics*

Pandemics and epidemics have had economic impacts that have extended far beyond the borders of the country where they originate. Things in the modern world that have facilitated disease transmission, such as travel, trade, etc., have often amplified these impacts. These can also stunt economic growth by altering expectations and discouraging investment and tourism. Many economists have studied the possible negative impacts of epidemics and pandemics on the economy.

As a kind of technological innovation, fintech has greatly promoted the technological progress, enterprise transformation, and consumption upgrading of enterprises. In addition, it is found that fintech can promote household consumption, while online shopping, electronic payment, and online lending are the intermediary variables of fintech to promote consumption (Li et al., 2020). Other studies have shown that fintech has a negative effect on household consumption smoothness, and this negative effect still exists when focusing on coverage breadth and depth index respectively (Lai, Yan, Yi, & Zhang, 2020).

**In the light of the above literature reviewed, Current study focuses on** assessing the changing pattern of income and consumption before and during the COVID-19 pandemic among the residents of Chembur, Mumbai and the role played by online payment in boosting the consumption levels, even when income levels fell a bit. The study attempts to

1. To assess Income levels at the time of lockdown and before lockdown in the study areas.
2. To assess Consumption levels at the time of lockdown and before lockdown in the study areas according to their income.
3. Impact of Fintech on sustaining consumption expenditure
4. To throw light on the factors that have motivated them to adopt and stick on to online payment modes

### **Research Methodology**

The main objective of the present investigation was to assess if the change in level of income of the respondents, led to the change in the levels of their consumption and how far has fintech been able to maintain the levels in their consumption, with more specific on online payments lockdown from how it was before the lockdown.

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### Primary sources of Data

A purposive sampling method was adopted to elicit information

A structured questionnaire was administered to 200 residents of Chembur, Mumbai, who were employed in service sectors and earning a monthly income of Rs 50,000 to Rs 1,20,000 before lockdowns to Covid-19 were imposed. (October 2019 ) and the same respondents were hesitant to respond

*Questionnaire consisted of four parts*

1. Demographic and socio economic status
2. Income and Sources of Incomes of the households before and after the lockdown/ restrictions imposed
3. Expenditure patterns before and after the lockdown/ restrictions imposed
4. Preferred mode of payments for purchases made

### Period of the study

October 2019- June 2020

### Secondary Sources

M.Phil/ PhD Thesis, Journals and other periodicals

The data so collected was analysed using statistical software. tools of analysis used

1. To analyze the difference between income and consumption patterns before and during a pandemic we use paired sample tests as parametric tests .
- 2.To test before and during the MPC level of the targeted consumer by the Keynesian consumption function model
3. Chi Squared test to test the association between income and online payment adopted.
4. Factor Analysis

### Results and Discussion

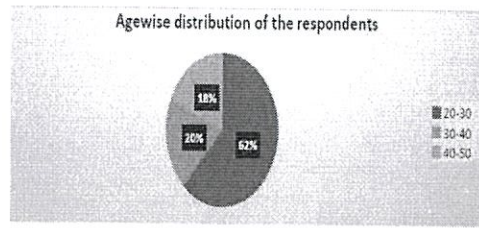
1. Demographic profile of the respondents

Figure 1 Age wise distribution of the respondents who shopped from online portals during work from home period

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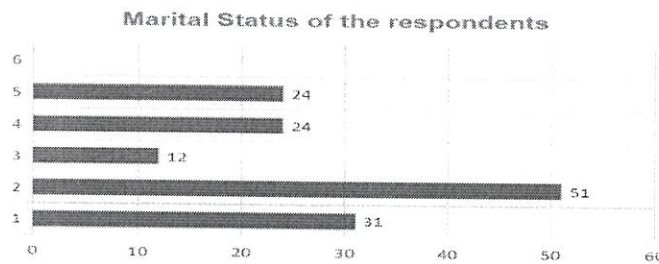




Source: Analyses were based on the sample surveyed

## 2. Marital status of the respondents

Figure 2 Marital status of the respondents



Source: Analyses were based on the sample surveyed

## Hypotheses Testing Using Chi-square Analysis

H<sub>0</sub>: There is no significant association between the income level of the respondents during lockdown and their adoption of online payment.

Chi Square analysis to test the significant association of respondents' income on their online payment during lockdown. (Source: Analyses were based on the sample surveyed)

It was observed that  $p < 0.05$ , income has a significant role in the respondents' adoption of online payment for goods purchased that is positively correlated with the income level of the respondent.

Chi Square analysis to test the significant association of respondents' income on their online payment during lockdown. (Source: Analyses were based on the sample surveyed, it is observed that  $p > 0.05$ , income has no significant role in the respondents' adoption of online payment for goods purchased that is positively correlated with the income level of the respondent.

To have a better understanding of the driving factors that influence the usage of online payment preferences by the respondents. Here we classified the factors under five factors: convenience, accessibility, risk, receptiveness and availability which helps to judge the intensity to adopt net banking or any other mode of online payments, were empirically validated with model fit for online shopping of essentials, before and during the lockdowns imposed, more specifically, during work from home period was successfully verified.



Consumption function :  $C_t = \alpha + \beta_1 Y_t + u_t$   $0 < \beta_1 < 1$

$\beta_1$  – Marginal Propensity to Consume (MPC) =

*Change in Consumer spending / Change Income ( $\Delta C / \Delta Y$ )*

**H01: There is no significant difference between People's monthly Income earned before (Ybp) and During Pandemic (Ydp)**

**H02: There is no significant difference between People's Consumption expenditure incurred before (Cbp) and During Pandemic (Cdp)**

**Table 1.** Parametric test of Paired sample statistics

		Mean	N	Std. Deviation	Correlation	Paired Difference Mean	t	Sig.
Pair 1	Ybp	52906	200	34739	0.64 (.07)	6050	7.36	.03
	Ydp	46856	200	24336				
Pair 2	Cbp	32857	200	19226	.82 (.05)	6000	7.82	.06
	Cdp	26857	200	21633				

(Source: analysis based on data collected from primary sources)

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The above table shows results of paired t tests conducted among the respondents

The table above compares the average scores for people's consumption expenditure before and during the lockdowns imposed consequent to COVID-19 Pandemic using paired samples t-test. In the above case, the authors are unable to accept the null hypothesis and conclude that –

1. Pair 1 was association income of the respondents, before the spread of pandemic and income level of the same respondents, during the lockdowns were imposed. Based on the P value (0.03), the authors are unable to accept the null hypothesis and conclude that there exists a significant difference in the monthly income levels of the respondents – the income they earned before the pandemic and the income they earned during the lockdowns imposed. There exists a significant difference between the Monthly incomes earned by the respondents before (Ybp) the lockdowns were imposed by the government to curb the spread of CoronaVirus and the monthly incomes earned by the respondents during the Lockdown imposed (Ydp).
1. There exists no significant difference between the Monthly consumption expenditure incurred by the respondents before (Cbp) the lockdowns were imposed by the government to curb the spread of CoronaVirus and the monthly incomes earned by the respondents



- during the Lockdown imposed (Cdp).
- The paired samples correlation demonstrates a significant relationship between consumption levels prior to and during the pandemic. It can be concluded that there is a significant difference between Income. We may infer that the average income and consumption habits of the population have altered both before and during the (covid-19) epidemic because the p-value is statistically significant.

In other words, if he has a family marginal propensity to purchase of 0.65 and buys an extra Re 1 of disposable income, he will spend Rs 65 and save Rs 35. In mathematical notation, the marginal propensity to consume (MPC) is defined as the disposable income derivative of the consumption function (C)(Y).  $MPC = \Delta C / \Delta Y$  For a given change in consumption (C), we can calculate its root cause (Y) as a percentage change in disposable income. A value between 0 and 1 represents the marginal propensity to spend, obtained by dividing the percentage change in consumption by the percentage change in income. If a person borrows money to cover expenses in excess of his income, the MPC he may outnumber one. In a closed, two-sector economy, 1 minus the MPC equals the marginal propensity to save, both of which are relevant in determining the magnitude of the multiplier and are the basis of Keynesian economics.

This income component is known as marginal consumption propensity (MPC). A measure of the notion that an increase in disposable income (income after taxes and transfers) will lead to an increase in personal consumer spending (consumption) is the marginal propensity to consume (MPC), an empirical statistic (Carroll, Slacalek, & Tokuoka, 2014). To put it another way, if a family has a marginal propensity to purchase of 0.65 and they acquire an extra dollar of disposable income, they will spend \$65 and put \$35 into savings. In mathematical notation, the marginal propensity to consume (MPC) function is defined as the disposable income derivative of the consumption (C) function (Y).  $MPC = \Delta C / \Delta Y$  For any given shift in consumption (C), we may calculate its root cause (Y) as the percentage change in disposable income. A value between 0 and 1 represents the marginal propensity to spend, which is determined by dividing the percentage change in consumption by the percentage change in income. If the individual borrowed money to cover expenses in excess of their income, the MPC could surpass one. In a closed two-sector economy, one minus the MPC equals the marginal propensity to save, both of which are significant in determining the magnitude of the multiplier and are fundamental to Keynesian economics.

**Table 2.** MPC Results of before and during covid-19 lockdown

Keynesian Consumption Function		MPC	R <sup>2</sup>	F	P	D-W	Df
Model 1 Before Lockdown/ restrictions imposed	$C = 9372.37 + 0.42Y$	.42	.79	14.02	.03	3.63	2.02

Model 2	$C = 8720.91 + 0.38Y$	.38	.71	8.27	.05	1.92	3.62
During Covid-19 Lockdown/ restrictions imposed							

(Source: analysis based on data collected from primary sources)

### Model 1, MPC of before pandemic

The above model depicts a basic form aggregate private consumption function. The relationship between aggregate disposable income (Y) in the past and consumer spending.

In table 2, the marginal propensity to consume is 0.42, which implies a unit change in income has an impact on the consumption expenditure to the extent of 0.42 units. With a P value of 0.03 also suggests that the null hypothesis cannot be accepted and it can be concluded that there is a significant difference between income change and consumption expenditure incurred, which is a very significant value from a statistical perspective (P .03). The value of  $R^2$  for the coefficient of determination is satisfactory at 0.79.. The estimate provided by mpc appears to be too low. The values of the model's coefficient of determination ( $R^2$ ), standard error of the regression, F-statistic, and D-W statistic, as well as its model P value, are statistically significant.

### Model 2, MPC during lockdown/ restrictions imposed

Model 2 depicts MPC during lockdown. As monthly incomes of the respondents went down a little, due to reduced pay or job losses, consumption also went down, but not to that extent. Consumption could have gone down further, during the lockdown/ restrictions imposed by the government, as compared to the previous period under study due to lack of movement among people. But, Thanks to e-commerce, there were orders through e-commerce sites like amazon, flipkarts etc, which kept the consumer spending on...An MPC of 0.37, implies that only a 37% change in the income level has an impact on the consumption. Hence, even when the lockdowns were imposed, people kept their consumptions on -

Social distancing measures were practised in full swing and yet, people, staying at home, were consuming and making payments. All of this can be attributed to digital modes of shopping using apps and making payments through various online payment modes. The authors have focussed a little effort in analysing, what were factors considered, among the respondents, when they adopted to /stuck on to digital payments.

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**Table 3 Factor Analysis - as to why customers prefer, digital payments**

Source: Analyses were based on the sample surveyed

Factor Analysis – as to why customers prefer, digital payments		
Variables	Factor Loadings	% of variation explained
24* 7 Access	<b>0.87</b>	<b>22.43</b>
Time saving	<b>0.80</b>	16.18
prompt service	<b>0.74</b>	14.24
in speedy retrieval of account information r	<b>0.71</b>	12.64
services ;easy and quick	<b>0.63</b>	19.01
Reliable	<b>0.71</b>	15.50

Over 80 percent of the respondents prefer shopping and paying online for the transactions as it had 24\*7 access, time saving and it's easy to learn and use the app. While over 33 percent of them opined that they use online ways to shop their essentials because of prompt service, ease of transactions, high reliability and simple service. Table 4 depicts the problems or concerns of digital payments as opined by the respondents-as perceived by them.

**Table 4 - Accessibility factors**

Concerns of the users	No of respondents
Safety of personal information and hacking	26
Worried about security IN transaction	27
Digital battery consumption of the apps	70
Customer queries getting resolved promptly	69

Source: Analyses were based on the sample surveyed

Over 70 percent of the respondents were worried about their safety and personal information getting leaked, how secure would their transactions be, avoiding getting hacked and disconnection of the network or the specific transaction while transacting. They were also concerned about the receptivity of the services and how soon their queries would be addressed by the customer care executives.

Over 90% of respondents said COVID-19 has affected their spending behavior. A majority of them,

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or 60%, believe their consumption and spending behavior has changed dramatically during COVID-19. 32 percent of the respondents said they were not worried about changing their spending habits. Ten percent of all respondents said COVID-19 had no impact on their purchasing behavior. Seventy-three percent of all respondents said they spent less during COVID-19, indicating a shift in spending patterns. However, 27% of respondents said they are increasing spending for COVID-19. 81% or the majority of respondents are spending money on groceries during COVID-19. Of that, she spends 11% on personal items, 4% on collecting her EMI, 2% on entertainment, and the rest 2% on eating out. COVID-19 forces customers to shop online.

The impact of COVID-19 on his B2B e-commerce activities has also been studied (Sheth, July 2020). Cashless economy supported this.

### Conclusion

It can be said from the data collected that there is definitely a change in the consumer behaviour. The income that was once spent on entertainment, recreation and health are now channelised towards health expenditures like health food, immunity boosters etc to add on to essentials. This has in a way helped in sustaining consumption expenditure. This sustenance of consumption expenditure can also be largely attributed to the online shopping and digital mode of payment – technical advancements in procuring the goods and paying for the same. In addition, it is found that fintech can promote household consumption, while online shopping, electronic payment, and online lending are the intermediary variables of fintech to promote consumption (Li et al., 2020). As one of the main innovative modes of fintech, electronic payment has attracted more and more attention to its impact on household consumption. Most scientists believe electronic payments will boost household consumption. If electronic payments help make shopping more convenient and efficient, people will gain consumer credit, earn more financial resources, actively participate in the digital economy, and make transactions safer and more transparent. Other studies have shown that mobile money has a significant impact on business growth, consumption and macroeconomic development (Beck et al., 2018). Moreover, research shows that fintech, electronic payments and e-commerce have a distinctly heterogeneous impact on consumption.

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