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Financial Distress Among Digital Lending Platform Users: Examining the Role of Behavioural Biases, Perceived Ease of Use, Online Borrowing Behaviour and Financial Anxiety

Trisha K.N[1], Dr. Rajisha T[2]

[1]MBA Student, Faculty of Management and Commerce, M.S Ramaiah University of Applied Sciences, Bengaluru

[2]Assistant Professor, Faculty of Management and Commerce, M.S. Ramaiah University of Applied Sciences, Bengaluru

Abstract - Purpose : The rapid growth of digital lending Platforms has made credit faster and easier to obtain, that widening financial access but also raising some concerns about Over-Indebtedness and social responsibilities of platform-based lenders. This study examines how behavioural biases (Present bias, Overconfidence) And technology-related factor (Perceived Ease of Use) shape Online Borrowing Behaviour and how this behaviour along with Financial Anxiety, is associated with Financial Distress among Digital lending Platform users

Design/ Methodology/ Approach : A quantitative research design using Primary data collected from 295 Digital platform users The study follows a descriptive and explanatory research design. Data were analysed using descriptive statistics, reliability analysis and Partial Least Squares, Structural Equation Modelling (PLS-SEM). All constructs showed good to excellent reliability, with Cronbach's alpha values ranging from 0.772 to 0.982.

Findings : Overconfidence, Present bias and Perceived ease of use significantly influence online borrowing behaviour. This indicates that both cognitive biases and the frictionless design of platform leads to borrowing decisions. Online Borrowing Behaviour has a significant positive relationship with Financial Distress. Financial Anxiety is directly and significantly associated with financial distress; however, it does not significantly moderate the relationship between Online Borrowing Behaviour and Financial Distress, which suggests that distress linked to digital borrowing does not depend on the level of anxiety among borrowers.

Practical and Social Implications: The results shows a significant association between borrowing convenience and consumer welfare in digital credit market. This highlights the need for responsible platform design, such as transparent repayment disclosures, deliberate push notifications regarding borrowing and proper disclosure of hidden charges. It also demand borrowers protection from regulators and financial literacy initiatives that targets behavioural biases

Originality/Value- The study integrates behavioural, technological and Psychological perspectives in to a single model. This provides a comprehensive explanation of financial distress in digital lending and offers insights in to the ethical responsibilities of digital lending Platforms towards vulnerable customers.

Keywords: Digital Lending, Financial Distress, Present Bias, Overconfidence, Online Borrowing Behaviour, Financial Anxiety

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1.INTRODUCTION AND BACKGROUND

Fast technological developments have revolutionized access to financial services in that it is possible to request and get loans in less than a minute using mobile apps. Although digital lending platforms offer convenient access to funds, ease of borrowing can affect decision-making and result in repayment challenges. As per RBI (2026), "the total outstanding book of personal digital loans held by digital-first NBFCs has risen 28 percent year on year to ₹1,54,195 crore as of June 2026."

With the increasing convenience of digital loans, it becomes pertinent to ask what individuals do when the process of obtaining credit becomes increasingly easy. There is the growing worry of whether the borrowers take time to think of their future ability to repay back when they borrow loans through digital means. This made the researcher feel that the study was important in understanding how the behavioural tendencies and ease of technology could affect borrowing habits and whether these are related to Financial Distress. Financial Anxiety will also be investigated.

Behavioural Finance Theory helps understand how such psychological biases affect finance-related decision-making (Shefrin, 2000; Barberis & Thaler, 2003). For instance, the concept of Present Bias means that individuals tend to give priority to immediate necessities rather than future debt payments. In this case, Meier and Sprenger (2010) showed that present-biased people tend to have higher credit card debt. The same applies to Overconfidence, where individuals may borrow because they believe in their financial skills.

2.LITERATURE REVIEW

Studies in the area of digital lending have increasingly concentrated on the behavioural, technological and psychological aspects affecting the decisions to borrow as well as their financial implications. Behavioural aspects that have been considered include present bias and overconfidence, ease of use of digital lending platforms, financial anxiety, debt outcomes and financial distress. In order to give the literature contextual and global relevance, the studies have been discussed under two headings National Perspective and International Perspective in increasing order of publication year.

2.1 National Perspective

As per national Studies, behavioral and technological determinants hold great significance in digital borrowing in India. According to Goyal et al. (2023), the effect of psychological and financial determinants on financial behavior has been noted. According to Thomas & Jose (2026), the factors such as present bias and overconfidence have significant impacts on online borrowing behavior. According to Sathish et al. (2026), digital lending has facilitated easy access to loans

2.2 International Perspective

Foreign literature proves the effect of behavioral biases, ease of use perception, and psychological factors on financial decisions. Barberis and Thaler (2003) emphasized the importance of behavioral biases, whereas Shapiro and Burchell (2012) focused on financial anxiety. Yadav and Shanmugam (2024) revealed the impact of ease of use perception on digital lending intention, and Priadipa (2025) described the connection between present bias and overconfidence and overborrowing risks.

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3.OBJECTIVES

1. To analyse the Impact of Present bias, overconfidence and Perceived ease of use of digital lending on online borrowing behaviour among digital lending Platform users
2. To examine the relationship between online borrowing behaviour and financial distress among digital lending platform users.
3. To assess the influence of Financial Anxiety on the relationship between online borrowing behaviour and Financial distress among digital lending platform users
4. To test & validate a model connecting present bias, overconfidence, Perceived ease of use of digital lending, online borrowing behaviour, financial anxiety in explaining financial distress among online borrowers in digital lending platforms

4.CONCEPTUAL FRAMEWORK AND RESEARCH HYPOTHESES

The Theoretical framework used is the study include Behavioural Finance Theory, Technology Acceptance Model (TAM) along with Psychological constructs. Behavioural Finance Theory provides the explanation for both Present Bias and Overconfidence, while TAM provides the explanation for Perceived Ease of Use of Digital Lending and its effect on borrowing behaviour. Financial Anxiety and Financial Distress are psychological Construct under consideration.

Independent Variables (IVs): Present bias, Overconfidence, and Perceived ease of use of digital lending.

Mediator Variable: Online Borrowing Behaviour

Dependent Variable(DV) : Financial Distress

Moderator : Financial Anxiety is incorporated as a moderator of the relationship between Online Borrowing Behaviour and Financial Anxiety

The Model was tested using PLS -SEM in Smart PLS

Present Bias (PB)) is Grounded in Behavioural Finance Theory and is considered as the factor of Online Borrowing Behaviour. Present Bias is Operationalised as the notion of placing greater value on immediate gains or needs rather than future implications. In the case of digital lending, present bias will be seen as a reason for the users to borrow money for immediate use without considering the future responsibilities. (Meier & Sprenger, 2010; Xiao & Porto, 2019; Maji & Prasad, 2024)

Hence the Hypothesis:

H1a: Present Bias Significantly Influence Online Borrowing Behavior

Overconfidence (OC), grounded in Behavioural Finance theory it is an overestimation of an individual's abilities and skills related to financial decision-making and underestimation of risks involved. Thus, in the case of digital lending, overconfidentusers will think that it would not be difficult for them to handle or repay borrowed money. (Grohmann,

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A., Menkhoff, L.,Merkle, C., & Schmacker, R. (2025)

Hence the Hypothesis:

H1b: Overconfidence Significantly Influence Online Borrowing Behaviour

Perceived Ease of Use (PEOU) is Defined in TAM as the degree of easiness or convenience experienced by users in using a Technology In this study the construct Is operationalised as convenience in applying and ease of getting credit. it is observed in Previous literature that ease of use can influence user Behaviour (Yadav, M., & Shanmugam)

Hence the Hypothesis:

H1c: Perceived Ease Of Use Significantly Influence Online Borrowing Behaviour

Online Borrowing Behaviour (OBB) refers to the behaviour exhibited by the people from Online Platforms. It is already evidenced from Previous study that Online Borrowing Behaviour is Influenced by number of factors. (Jose, J., Thomas, A.P., & Jose, S. (2026)

Thus, The Study Follows the following hypothesis

H2: Online Borrowing Behaviour Significantly Influence Financial Distress

Financial Anxiety(FA)) is a Psychological Construct Explains the feeling of worry, concern and insecurity regarding one's finances. Study Operationalises the construct as how anxious is the person who took loan from digital lending platforms. Study posits the construct as the moderator that expects to influence the relationship between Online Borrowing Behaviour and Financial Distress. (Shapiro, G. K., & Burchell, B. J. (2012)

H3: Financial Anxiety Significantly moderates the relationship between Online Borrowing Behaviour and Financial Distress

Financial Distress (FD) is a psychological construct that reflects the pressure that includes problems related to fulfilling financial commitments and making payments. In this study Financial Distress is Considered as dependent variable and research framework suggest that increased online borrowing behaviour may be linked to higher financial distress.(Wang, Z., & Xiang, H. (2025)

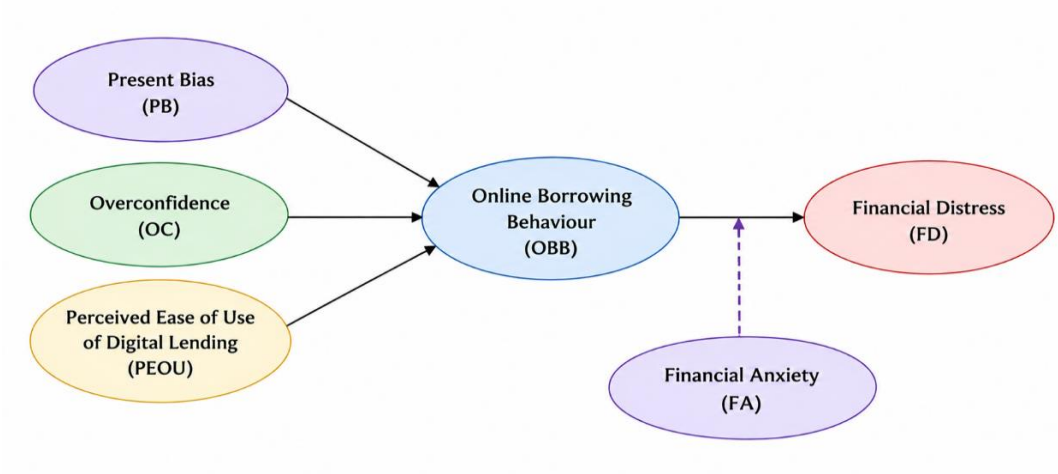


Figure:3.1 Conceptual Framework

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5. RESEARCH METHODOLOGY AND DATA ANALYSIS

A quantitative research methodology with a descriptive and explanatory design was used in this study. The primary data collection tool used in this study is a structured questionnaire covering all the Variables, obtained through 5 point likert scale consisting of 4- 10 Items from 295 digital lending platforms users. The collected data were analysed using SPSS and SmartPLS software. SPSS was used to conduct descriptive statistics and reliability analysis, while SmartPLS was used to analyse PLS-SEM, measurement model, path analysis and moderation analysis. Path coefficients, t-values and p-values were used in bootstrapping method to test the significance of the proposed relationships. Measurement model was evaluated using Cronbach's Alpha, Composite Reliability and AVE, while the structural model was evaluated using R^2 and fit model measures such as SRMR and NFI.

6. RESULTS (OBJECTIVE WISE)

To assess the Impact of Present bias, overconfidence and Perceived ease of use of digital credit on online borrowing behaviour among digital lending Platform users

Table 6.1 Path Analysis Result of OC, PB, PEOU

Path	Beta (β)	P- Value	Significant	Remarks
OC → OBB	0.495	0.000	P< 0.05	Significant
PB → OBB	0.240	0.001	P< 0.05	Significant
PEOU → OBB	0.137	0.009	P< 0.05	Significant

Interpretation

The results show that Overconfidence ($\beta = 0.495$, $p < 0.001$), Present Bias ($\beta = 0.240$, $p = 0.001$), and Perceived Ease of Use ($\beta = 0.137$, $p = 0.009$) are positively related to Online Borrowing Behavior. Overconfidence turned out to be the most influential predictor, followed by Present Bias and Perceived Ease of Use. Thus, hypotheses H1a, H1b, and H1c are proved. The R^2 value of 0.512 means that the above-mentioned three variables are responsible for 51.2% of variation in Online Borrowing Behavior, and 48.8% may be attributed to some other reasons not covered in this research.

Objective 2: To examine the relationship between online borrowing behaviour and financial distress among digital lending platform users.

Table 6.2 Path Analysis Result of OBB and FD

Path	Beta (β)	P-Value	Significance	Remarks

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OBB → FD	0.400	0.000	P <0.05	Significant

Interpretation

From the analysis above, it can be concluded that there exists a positive relationship between Online Borrowing Behaviour and Financial Distress ($\beta = 0.400$, $p < 0.001$). There is therefore an increase in financial distress when online borrowing behaviour increases. Hypothesis 2 is thus supported. These results reveal the potential impact on finances resulting from online borrowing especially in terms of future repayments. It is worth noting that the results just reveal a relationship without necessarily implying causality.

Objective 3: To assess the influence of Financial Anxiety on the relationship between online borrowing behaviour and Financial distress among digital lending platform users

Table 6.3 Path Analysis Result of Moderating Effect of FA

Path	Beta (β)	P- Value	Significance	Remarks
FA → FD	0.587	0.000	P<0.05	Significant
FA × OBB → FD	0.077	0.085	P>0.05	Not Significant

Interpretation

However, the result shows that Financial Anxiety has a positive and significant relationship with Financial Distress ($\beta = 0.587$, $p < 0.001$), implying that the more the financial anxiety, the more the financial distress. Nonetheless, the interaction between Financial Anxiety and Online Borrowing Behaviour in predicting Financial Distress is not statistically significant ($\beta = 0.077$, $p = 0.085$). Thus, H3 is rejected, implying that Financial Anxiety has a direct association with Financial Distress but not as a moderator to Online Borrowing Behaviour and Financial Distress.

Objective 4: To test & validate a model connecting present bias, overconfidence, Perceived ease of use of digital lending, online borrowing behaviour, financial anxiety in explaining financial distress among online borrowers in digital lending platforms

Table 6.4 Measurement Model Fit

Construct	Cronbach's alpha	Composite reliability (rho_a)	AVE
FA	0.826	0.834	0.541
FD	0.768	0.772	0.520

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OBB	0.961	0.969	0.746
OC	0.880	0.887	0.629
PB	0.853	0.856	0.694
PEOU	0.962	0.982	0.897

Interpretation

Measurements model has been applied to test the reliability and validity of the constructs used in the research. The results indicate that the constructs exhibit satisfactory internal consistency and convergent validity.

The internal consistency of constructs measured by Cronbach's Alpha is between 0.768 and 0.962, which indicates acceptable to high internal consistency of constructs. The value of composite reliability is between 0.772 and 0.982, which is more than the minimum required value of 0.70, therefore, supporting reliability of measurement scales.

The values of average variance extracted (AVE) are between 0.520 and 0.897. Since all the values are above 0.50, constructs exhibit convergent validity, indicating that the indicators measure their corresponding constructs.

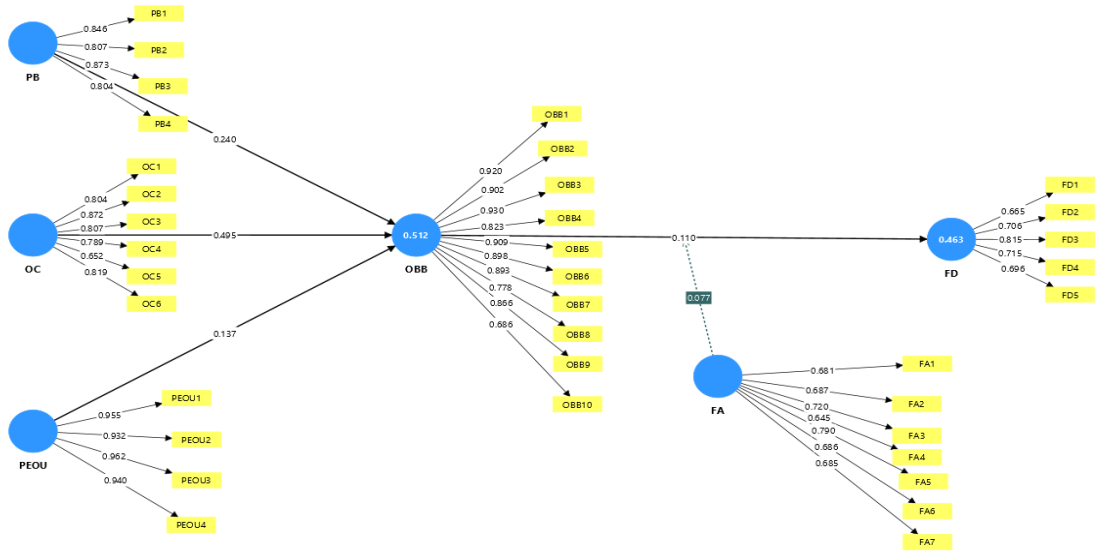


Figure 6.1 PLS SEM Model

Interpretation

The structural model captures the link between Present Bias, Overconfidence, Perceived Ease of Use, Online Borrowing Behaviour, Financial Anxiety and Financial Distress. Present Bias (β = 0.240), Overconfidence (β = 0.495) and Perceived Ease of Use (β = 0.137) have positive impact on Online Borrowing Behaviour, and Outconfidence is the best predictor among them. The R^2 value of 0.512 shows that the aforementioned variables account for 51.2% of Online Borrowing Behaviour's variability.

There is a positive relationship between Online Borrowing Behaviour and Financial Distress, while the reported R^2 is equal to 0.463, which means that the explanatory power is 46.3%. Financial Anxiety has been considered as a moderator, and the corresponding interaction coefficient is 0.077. However, the bootstrapping result (p = 0.085) demonstrates that

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the moderation effect is insignificant. In general, the model takes into consideration the behavioural, technological and psychological variables in order to explain Financial Distress.

Table 6.5 Model Fit

Model Fit Indices	Value	Remarks
SRMR	0.086	Acceptable
D_ULS	4.954	Acceptable
D_G	1.527	Acceptable
Chi-square	2601.162	Acceptable
NFI	0.731	Moderate

Interpretation

The SRMR = 0.086 means that the fit of the model is acceptable, albeit somewhat higher than the typical threshold of 0.08.

The NFI = 0.731 demonstrates that there is some improvement to the null model, but again, it is not a very good fit.

In general, the fit is acceptable but not good, and the findings have to be interpreted jointly with reliability, validity, path coefficients and R^2.

7.MANAGERIAL IMPLICATIONS

From the analysis above, it can be concluded that there exists a positive relationship between Online Borrowing Behaviour and Financial Distress ($\beta = 0.400$, $p < 0.001$). There is therefore an increase in financial distress when online borrowing behaviour increases. Hypothesis 2 is thus supported. These results reveal the potential impact on finances resulting from online borrowing especially in terms of future repayments. It is worth noting that the results just reveal a relationship without necessarily implying causality.

The high impact of Overconfidence makes it very important to assist borrowers in determining their income, their existing debt, and their ability to repay any new loans that they intend to take. While technological ease makes borrowing very easy, it is important to ensure that relevant precautions are put in place during the process of loan applications. The correlation between Online Borrowing Behavior and Financial Distress is also very positive.

Also, Financial Anxiety positively correlates with Financial Distress, but does not have a significant moderating role. Thus, financial education, debt counseling, and financial counseling must be provided by financial institutions and policymakers. In general, the results reveal that there is a need for harmony between technological benefits and responsible debt management.

8.CONCLUSION

The analysis of Financial Distress in users of digital lending platforms was conducted by combining aspects such as behaviour, technology and psychology. The results indicated that the three variables namely Overconfidence, Present Bias and Perceived Ease of Use have strong positive impacts on Online Borrowing Behaviour where Overconfidence had the highest impact among the three. Both Online Borrowing Behaviour and Financial Anxiety had positive

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correlations with Financial Distress. But the variable Financial Anxiety had no moderating effect on the correlation between Online Borrowing Behaviour and Financial Distress.

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