



OPEN ACCESS

Volume: 4

Issue: Special Issue 1

Month: April

Year: 2025

ISSN: 2583-7117

Citation:

Ms. Sheetal Kumari, Ms. Fancy Mary Pdang, Ms. Priya Gupta "The Future of Banking: Is the "cashless society" achievable?" International Journal of Innovations in Science Engineering and Management, vol. 4, no. Special Issue 1, 2025, pp. 49–58.

DOI:

10.69968/ijisem.2025v4si149-58



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The Future of Banking: Is the “cashless society” achievable?

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Abstract

The future of banking is hovering for transformation as cashless or digital payment systems. As technology advances and the quick transition of digital platforms are likely to blur the boundaries of banking, technology, and other sectors. For a future cashless society, banking is the foundation stone, as it is highly evolving into technology-driven and customer-focused and helping the traditional banks to adopt these new evolutions in the banking sector, to highlight consumer needs and enhance securities in any transactions. A cashless society is seen as a means to boost financial efficiency, transparency, and stronger securities. The government has taken a lot of initiatives to promote this concept, especially regarding digital India. However, in a country like India, we cannot deny the challenges persist, especially in rural or semi-rural areas where inadequate infrastructure and digital illiteracy hinder this progress. This research examines how likely it is to achieve a cashless society in India, using both primary and secondary data. The data was collected using the Google form questionnaires and secondary sources. The findings from this research are expected to contribute to a more inclusive, digital advanced banking system and to understand the implications of a cashless society on India's economy and its banking sector. Exploring these dynamics will contribute to shaping policies that facilitate a sustainable cashless future in India.

Keywords; Banking sector, Digital payment system, Cashless society, Digital platform, Digital illiteracy.

INTRODUCTION

The banking sector plays an important role in the Indian economy by facilitating the flow of capital, supporting economic growth, and providing a wide range of financial services. The growth of India's economy is unthinkable without the banking sector's involvement. This sector is experiencing a great transformative shift as digital technologies redefined traditional financial systems. The concept of a cashless society is defined where transactions are mainly conducted using electronic means rather than physical currency, is gaining grip worldwide. This transformation is driven by the growing adoption of digital payment systems, the increase of mobile banking, plastic cards, U.P.I and advancements in financial technology.

The future of banking lies in its ability to embrace these advancements. This topic is significant as it explores a crucial aspect of modern economies—the transition to cashless transactions. A cashless society promises a lot of benefits, including enhanced convenience, improved security, and reduced costs associated with cash handling. Despite the progress toward digitalization, there remains a gap in understanding the feasibility of achieving a fully cashless society. The primary objective of this research is to evaluate whether a cashless society is achievable by examining the technological, social, and economic factors influencing this shift. By addressing these objectives, this research aims to contribute valuable insights into the future landscape of banking and provide recommendations for navigating the challenges associated with this significant shift.

Figure 1



<https://images.app.goo.gl/Mmb6WYJshyUTCEJc7>

It encompasses a wide scope that examines the technological, economic, and social implications of moving towards a cashless economy. It investigates factors such as the role of digital currencies, the impact of financial inclusions, and the evolving landscape of payment systems driven by fintech innovations. However, the limitations of this research include potential biases in data collection, as not all demographics may be equally represented in studies on digital payment adoption. Additionally, varying levels of infrastructure and digital literacy across different regions can skew results, making it challenging to generalize findings. Concerns regarding privacy, security, and the exclusion of vulnerable populations – such as the elderly or those without reliable internet access – further complicate the feasibility of a fully cashless society. These factors highlight the need for careful consideration of both benefits and drawbacks in assessing the future of banking in a cashless context.

This research holds significant value for various stakeholders, including academia, businesses, governments, and consumers. For academia, it provides a rich field for exploration into the socio-economic impacts of digital finance and the implications for financial inclusions and security. Businesses stand to benefit from increased efficiency and reduced transaction costs associated with cashless transactions, enhancing customer convenience and potentially driving economic growth. Governments can leverage insights from this research to formulate policies that promote transparency, reduce corruption, and improve tax collection through traceable electronic transactions. For consumers, a cashless society promises greater convenience, improved access to financial services, and enhanced security

against theft; however, it also raises concerns regarding privacy and the risk of exclusion for those lacking digital literacy or access. Overall, understanding the dynamics of a cashless society is crucial for fostering an inclusive and efficient financial ecosystem that addresses the needs of all stakeholders.

Objectives

- To find out the Feasibility of a Cashless Society
- To Examine the Benefits and Challenges of Digital Payment Adoption
- To Analyze the Socioeconomic Impact of a Cashless Society

Limitations

In spite of the insights and contributions that this study provides us, it is important to acknowledge that the conclusion of this research paper has several limitations. Firstly, the sources of our resource collections are limited to specific states and regions. Secondly, the limited responses that we received may not represent the true situation in the entire country and may not provide accurately the status of progression towards the transition to cashless society. The data was collected in the month of December 2024 with a sample size of 113 respondents from various backgrounds such as those working in banking sector, other than banking sector, students- undergraduate and post – graduate and some are self-employed. With the population growth that we have and the rapid growth in financial technology, it is obvious that changes will automatically happen because of the user preferences, conveniences and the technological advancements.

Research Methodology

This research methodology is based on qualitative research. It aims to evaluate how likely the cashless society is achievable, its feasibility, the benefits and challenges and socio-economic impact of a cashless society. This research depends on the primary sources, data collected through questionnaires and secondary sources such as academic and news articles and journals etc.

Analysis and Discussion

1. Evolution of Digital Banking Services
2. Feasibility of a Cashless Society
3. Benefits and Challenges of Digital Payment Adoption
4. Socioeconomic Impact of a Cashless Society

EVOLUTION OF DIGITAL BANKING IN INDIA

Banking is an ancient trade that goes back to old India. The last decade of the 20th century [1990-2000] was known as the “information technology revolution decade.” These tech advancements, especially in information tech, helped move from paper banking to digital banking. Thus, traditional banking changed to digital banking (Gupta, 2022).

The change of Indian banks to digital methods started in the early 2000s when the Reserve Bank of India (RBI) encouraged electric payment systems. However, the real boost for digital banking in India came after the Demonetization Drive in 2016. The fast removal of high-value currency caused a rise in digital payments, leading banks to upgrade their digital services. Since that time, many Indian banks have adopted digital channels. After demonetization, the COVID-19 pandemic sped up the growth of digital banking in India, as more customers used online methods for banking. Banks responded by creating new digital services, like KYC (know your customer) and virtual credit cards.

Figure 2



<https://digitalmedianinja.com/blog/ai-in-banking/>

Now, most banks in India provide various digital services, such as mobile banking, internet banking, and digital wallets. Customers can check accounts, send money, pay bills, and even apply for loans online or through apps. Banks are also spending a lot on artificial intelligence, chatbots, and other digital technologies. As a result, traditional banking has path to digital banking. (Gupta, 2022). The evolution of Indian banks migrating to digital channels can be traced back to the early 2000s when the Reserve Bank of India (RBI) started promoting the use of electric payment systems. The introduction of the National Electronic Fund Transfer (NEFT) in 2005 and the Immediate Payment Services (IMPS) in 2010 were significant steps toward the digitization of payments.

However, after Demonetization Drive taken place in 2016, the real push of digital banking in India came. The sudden withdrawal of high value currency notes led to a surge in digital payments, forcing banks to ramp up their digital infrastructure and services. Since then, there has been a significant increase in the adoption of digital channels by Indian banks. After the demonetization, the COVID-19 pandemic further accelerated the adoption of digital banking in India as customers increasingly relied on online channels to conduct their banking transactions. Banks responded by launching new digital products and services, such as KYC (know your customer) and virtual credit cards.

Today, most banks in India offer a range of digital services, including mobile banking, internet banking and digital wallets. Customers can access their accounts, transfer funds, pay bills and even apply for loans online or through mobile apps. Banks also invest heavily in artificial intelligence, chatbots and other digital technologies.

FEASIBILITY OF A CASHLESS SOCIETY

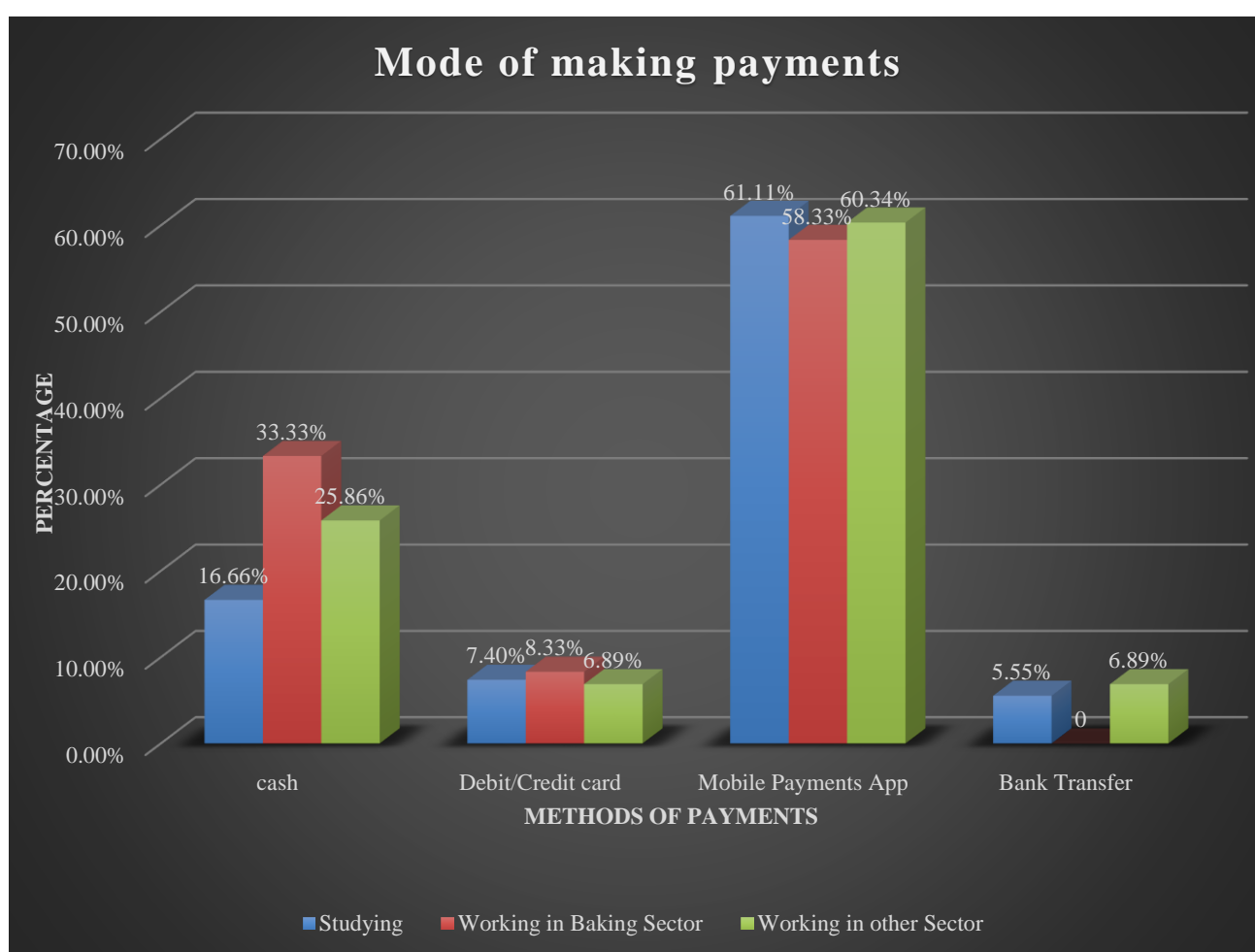
We begin our mini case analyses to explore a variety of cashless payments solutions that have been implemented in states of India with developing infrastructure, the states are almost same in terms of their local retail implementation environment digitalization, as well as the novelty and advanced technical nature the cashless payment solutions they have sought to implement. (Dennis Ng a b, 2021). As per the reports of national informatics Centre;

- In 2017, UPI recorded a Year-on-year growth of 900%, processing over 100 million transactions worth INR 67 billion.
- In 2018, the Year-on-Year growth was 246% with transactions worth over INR 1.5 trillion processed.

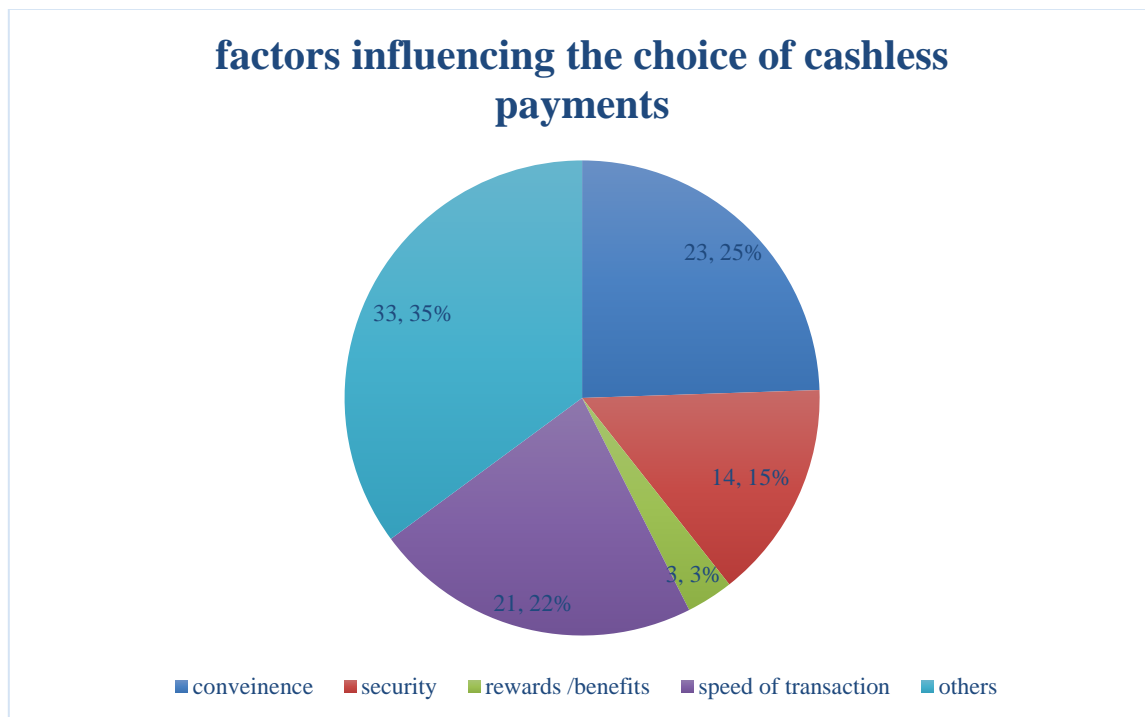
- In 2019, the Year-on-Year growth was 67% with transactions worth over INR 2.9 trillion processed.
- In 2020, UPI recorded a Year-on-Year growth of 63% with transactions worth over INR 4.3 trillion processed in December 2020.
- In 2021, the Year-on-Year growth was 72% with over 1.49 billion transactions worth INR 5.6 trillion processed in June 2021.
- By the end of the calendar year 2022, UPI's total transaction value reached INR 125.95 trillion, marking a 1.75x year-on-year (YoY) increase, according to the NPCI. Notably, the total UPI transaction value represented nearly 86% of India's GDP in FY22.
- At the end of the calendar year 2023, UPI's total transaction volume stands on 83.75 billion.

As Per the Primary Data Collected from Across India

Figure 3 mode of making payment

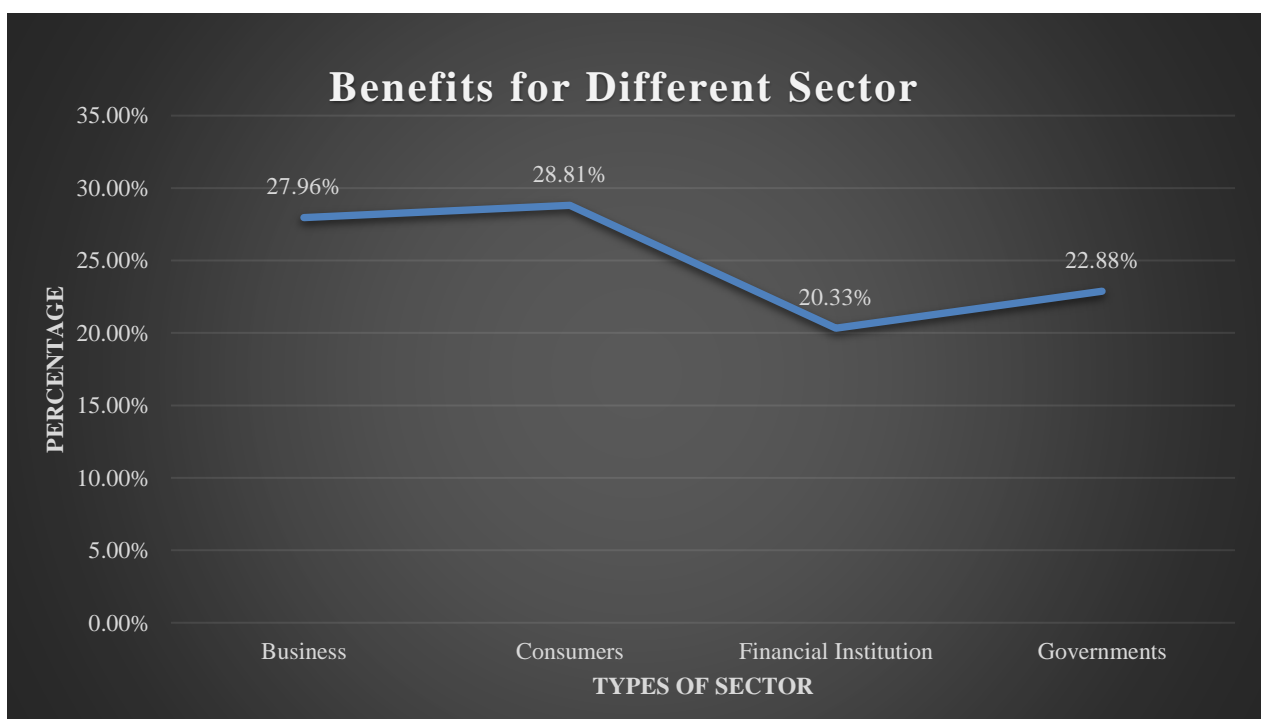


- As per the graph, 33.33% of the people who are in banking sector uses cash as mode of payment which is more compare to people who are studying and working in another sector.
- In case of debit/credit card system, 8.33% of people in banking sector use this method while 7.40% people who are studying and 6.89% people who in other sector prefer this mode of payment.
- 61.11% of people who are studying prefer mobile payments app for transaction while 58.33% people who are in banking sector and 60.34% people who are in other sector prefer mobile payments app usually the UPI.
- After analysing the graph, it shows that people are preferring more mobile payments app compare to other mode of payments.

Figure 4 Factors influencing the choice of cashless payment

This graph basically represents that people are using cashless payments whether it is a card payment or mobile payment because of their own personal belief. The second factor which influence the payment system more is the

convenience they get while making the payment from anytime and from anywhere. Security and speed of transaction is also playing a crucial in the cashless payment system taking India towards a cashless society.

Figure 5 benefits for different sector

After analyzing the primary data, we observe that the cashless society will going to benefit the consumer more than another sector. On the other hand, Business will also receive the benefits of cashless society on the basis of increased convenience, better tracking of transaction, reduced crimes (e.g. Theft), cost saving (e.g. No cash handling expenses) etc.

BENEFITS AND CHALLENGES OF DIGITAL PAYMENT ADOPTION

Benefits

The adoption of digital payment has brought numerous benefits to the businesses, individual persons, financial institutions, government and to the whole country as a whole with regards to the dealings of anything monetarily. There is no doubt that with the adoption of digital payment the many paper works have been reduced. Transparency, accountability, efficiency, time saving and better recording of the transactions has shown their possibility and enhancement in many sectors.

- **Convenience** – It enables quick and easy transaction and everything can be done and available in our finger tips. It reduces the need for cash handling (especially when dealings in huge amount) and physical visit to banks. It gives the facility for the users to pay at any time and from anywhere and everywhere, in other words it removes the time and spaces barriers.
- **Transparency, traceability and monitoring of payment:** This has made the payment very transparent as all transactions are being recorded automatically and especially with the usage of block chain technology where everything is stored in the ledger and this in fact has help to make possible to trace and monitor every transaction made and therefore it increases efficiency and accountability.
- **Speed of transaction:** With the adoption of digital payment, it has enabled and faster the process of transaction and reduces the transaction cost. It increases the efficiency and allowing or offering multiple options to an individual or business or organization to make payment timely and even to a broader market.
- **Economic growth:** The digital payment system drives economic activities by encouraging individual to invest, borrow and save with the little that they have, boosting consumptions and

extending financial services to more people (those who are not under the formal banking system), bridging the gap and fostering them to adopt the formal economy system.

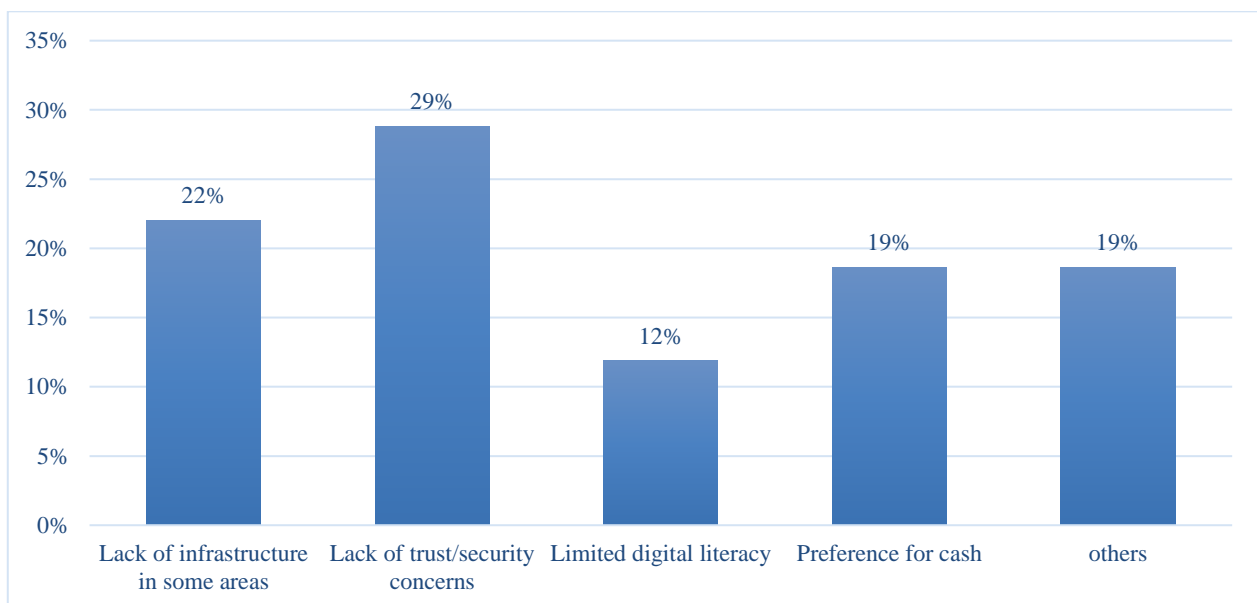
Challenges

Even though there has been a lot of transformation and efficiency shown in the financial services with the adoption of digital payment but there are also some of the challenges that these effective services are not able to reach to the whole population of the country because of various reasons like:

- **Lack of infrastructure:** In some areas, the infrastructure for digital payments is still lacking. As a result, residents may have limited or unreliable access to digital payment options. Many rural regions in India also face challenges with unreliable internet connectivity, making it difficult for people to learn about and adopt digital technologies. (Hemant Trivedi, 2023) Additionally, these areas often lack essential infrastructure to support digital literacy, such as schools, libraries, and community centers equipped with computers and internet access. According to our research response it shows that about 31.7% of the respondents are also raising the issues about the lack of infrastructure or the infrastructure gap.
- **Too much reliance on the internet:** All these digital payments rely their effectiveness on the internet connectivity in which when internet is not available the digital payment cannot be use. The percentage of 34.9% of our research respondents said that it has these disadvantages because of the too much reliance in the internet connectivity and which in our country India, there are areas where internet connectivity is not accessible and these therefore, many rural communities are not able to use this facility of digital payment.
- **Cyber security risk:** The reasons for frauds in online payments are due to insufficient investment in security technology and lack of awareness of people with respect to cyber frauds and cyber-crimes. Because of this people become victim of these frauds and it reduces trust in digital mode of payments. 41.7% of those who responded to our questionnaire said that the biggest disadvantages and the barriers that prevent the smooth transformation to digital society are because of the risk in cyber security.

- **Digital ignorance or limited digital literacy:** In many rural areas of our country many people are illiterate and digital ignorance and not getting the necessary facility to equip themselves for these rapid transitions in comparison to the urban areas. According to the data that we have collected about 20.8% of them have raised this concern as a barrier that prevents them to going fully cashless or fully digital.
- **Cash dependency or preference for cash:** One of the challenges that cannot be ignored is the preference for cash especially those elderly group of people and those who lack trust in the security of digital payment. About 25.8% of the respondents said that the cash dependency or preference for physical cash also set as a barrier to achieve a fully cashless society.

Figure 6 barriers prevent people from using cashless payment system



The bar chart given above shows the percentages of the different barriers that prevent many people from using digital payment and also acts as the challenges to fully adopt the digital or achieve the cashless society.

SOCIOECONOMIC IMPACT OF A CASHLESS SOCIETY

The implementation of a cashless society also has significant economic and social implications that are important to consider (Vlad Mihail Dinescu, Sep 16, 2024). From an economic perspective, the decrease of using physical currency can lead to substantial cost savings for financial institutions and central banks. Moreover, the data generated by digital transactions can provide insights into economic trends (Vlad Mihail Dinescu, Sep 16, 2024).

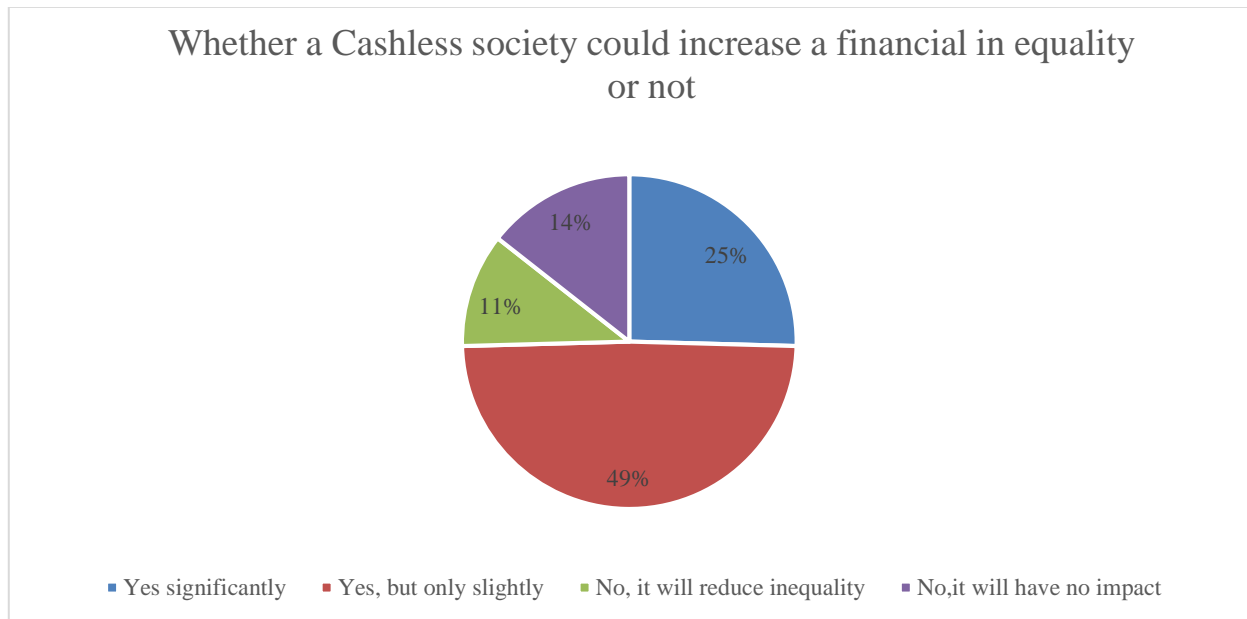
The move towards cashless payments has a potential that, it will have a significant impact on the socio economic of the country, the inequality where for those people who have resources, money and regular good income the cashless transitions will have a very positive impact but at the same

time a good percent of people who do not get access to these financial technology facilities, the elderly people and digital illiterate in particular will struggle with these cashless or digital payment methods. Therefore, policymakers, regulators, and industry leaders need to work together to maximize the benefits of going cashless while managing risks and challenges. Finding the right balance is the key to ensuring a smooth and sustainable shift to a cashless future.

Both positive and negative impact will be there with the cashless society as some of the benefits and challenges already stated above. But with all these, to treasure the benefits and at the same time not to neglect the challenges but with the rapid advancements and development of the technologies, the cashless society will bring numerous benefits.

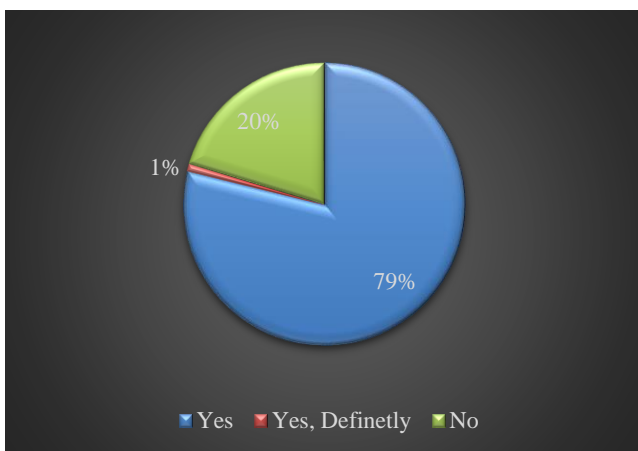
The biggest question remains, will the cashless society increase financial inequality? According to the data that we have collated in this research, here in the chart below that presents the different percentages of how likely will it be.

Figure 7 whether a Cashless society could increase a financial in equality or not



78.3% of people believe that cashless society can be achieve and 0.8% of people are so sure that it will surely achieve because of technological advancements, global digital adoption, convenience demand, government support, widespread internet, digital wallet adoption, mobile payment growth, E- commerce expansion. Whereas 20.8% of people say that it will not be achievable because of cyber security, cash dependency, cultural dependency, lack of internet connectivity, economic inequality, elderly resistance and infrastructure gap.

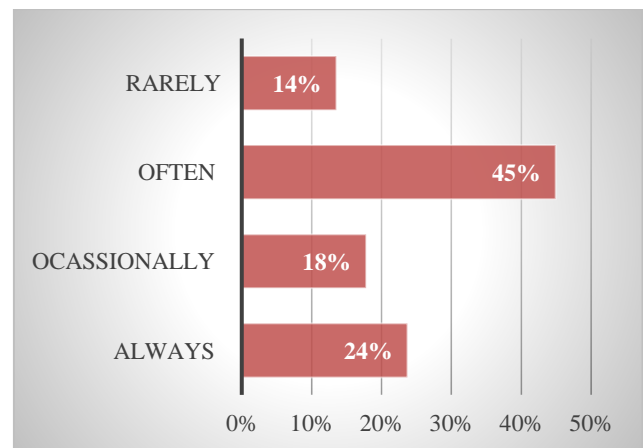
Figure 8 whether a cashless society is achievable in next 10 year



With the convenience of using this digital payment and because of easy access 44.2% and 24.2% of people are using

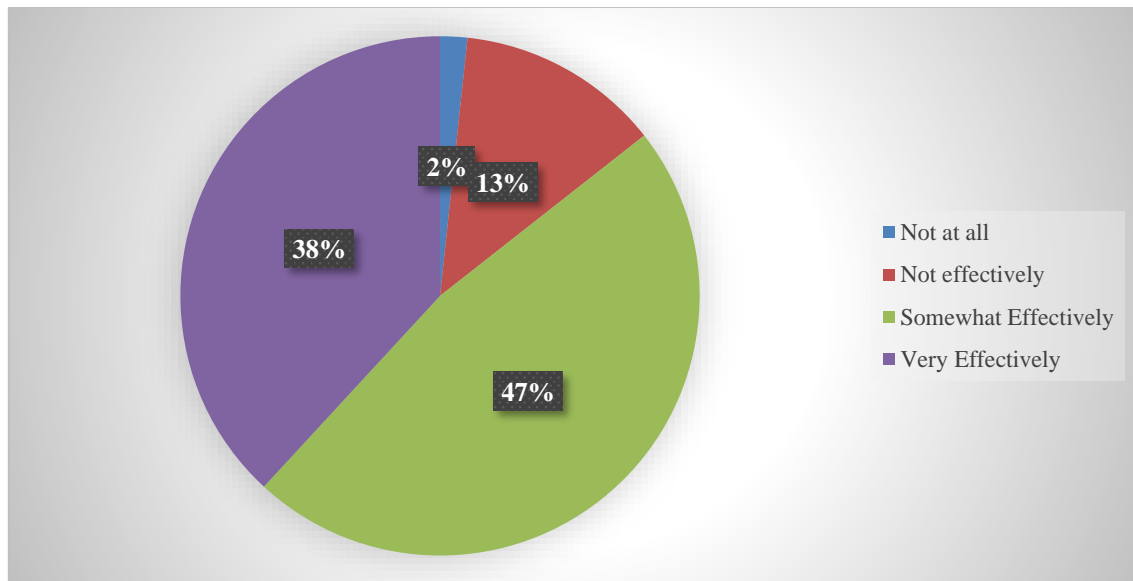
online payment often and always respectively. 18.3% and 13.3% of people are using occasionally and rarely respectively.

Figure 9 how frequently people use cashless payment method



When we look into the financial institutions especially banks as to how likely they have promoted the cashless payment systems and according to the responses 47.5% of people say that the bank or financial institution somewhat effectively in promoting the cashless payment and to an extend of 38.3% of people say that banks are very effective in promoting this transition and trying its best to include especially those who are not in this formal banking system. 12.5% of people say that they are not effective and 1.7% of the people say that not at all promoting this transition to cashless society.

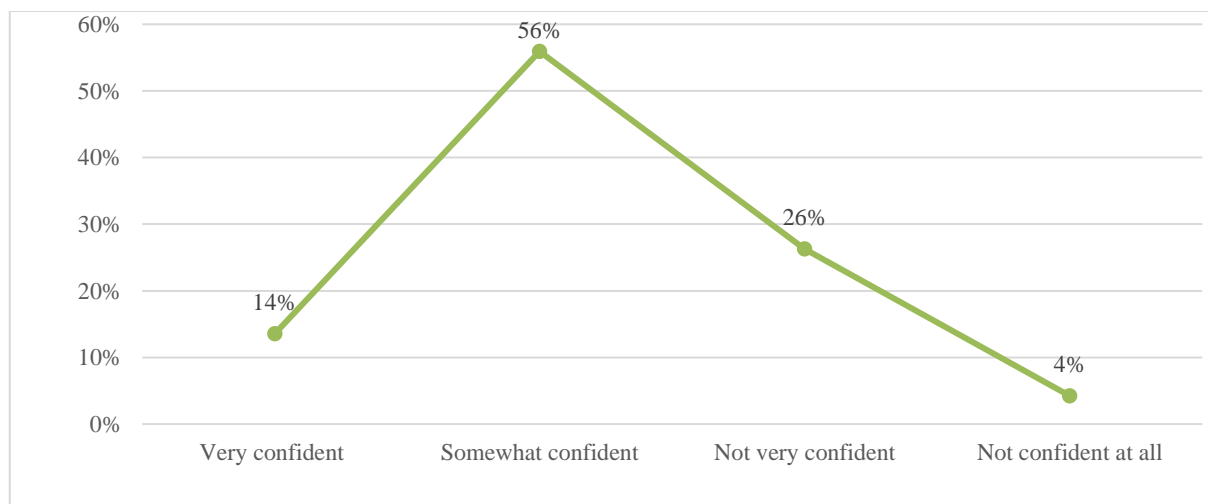
Figure 10 how well do bank promote cashless payment system



With regarding to the security measures that the digital payment platform given to the people, it has created or give a sense of confidence to the users and therefore 13.3% of people say that they are very confident of using digital payment systems, 56.7% of people say that they are somewhat confident, 25.8% of people say that they are not

very confident. As a result, we can say that a good percentage of people who still have no confidence in using digital payment and it is a number to be ignored, if we are striving for a cashless society and equal access of these facilities.

Figure 11 how confident people are in security measures of digital payment system



CONCLUSION

The urge to move towards cashless economy in India is increasing day by day as India has the potential to move towards the cashless society with all these financial technology advancements but it has a long way to achieve because of the digital gap between the urban and rural areas. Cashless idea can work only when everybody is under one roof. The government should insist institute to work through

different channels to make the people more aware about the digital literacy especially in rural areas. One the other hand, government should focus more for better internet connectivity so that more and more people from rural areas will be able to get access to these digital financial facilities. Introduction of different policies in India will act as a catalyst in achieving a cashless society. There is a need to ensure the safety and security of the cashless transactions as

the cyber-attacks including all type of fraud and scam have increased a lot more. The idea of cashless economy itself is great but all these problems and potential threats have to be taken into account. (U.Daru, 2016). After doing the research, we are able to know that people are more using different types of payments methods rather than using cash not only because it is convenient but also it has a lot of benefit. If people have to pay a large sum of money. Currently, less than 1% of total consumer spending is done through cashless methods. The rise of malls, multiplexes, online stores, and shopping complexes encourages customers to use plastic cards. This shift benefits consumers while also significantly reducing the costs associated with printing currency and coins. (Kaur, 2019).

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