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THE IMPACT OF DIGITAL PAYMENT ON TRADITIONAL BANKING SYSTEM

Pooja Joshi[1], Lakshay Mittal[2]

School of Commerce, Galgotias University

INTRODUCTION :

The financial services sector is undergoing a rapid digital transformation. Traditional banks and payment providers are increasingly embracing technologies like mobile platforms, artificial intelligence, and blockchain to streamline operations and meet the evolving needs of today's customers. This shift gained significant momentum during the COVID-19 pandemic, which acted as a catalyst for digital payment adoption across all demographics. Today, more than 90% of consumers report using at least one form of digital payment in the past year.

Digital payments refer to any transaction that doesn't involve physical cash, covering a wide spectrum of methods such as mobile wallets (e.g., Google Pay, Apple Pay), internet banking, peer-to-peer (P2P) platforms like PayPal or Venmo, contactless card transactions, and even emerging forms like cryptocurrencies. These technologies are supported by secure, network-based infrastructure involving tokenization, encryption, and biometric authentication.

As digital payments gain ground, banks are rethinking their business models. Physical branches are closing, and more services—from deposits to customer support—are being delivered through apps and online platforms. Fintech companies and tech giants like Amazon and Google are also entering the financial space, introducing new competition and collaboration opportunities. This blurring of lines between traditional banks and digital players makes it crucial to understand the impact of this transformation on the broader financial system.

Need of the Study :

Digital payment technologies are not just transforming how people pay—they're redefining the very foundation of banking. With rising smartphone penetration, mobile wallets, UPI, and online banking have become mainstream. However, many legacy banks still struggle to keep up with the digital curve. This raises important questions about sustainability, security, and accessibility.

This study is necessary for several reasons:

- **Changing Consumer Habits**: Customer preferences are shifting toward convenience and speed. Banks must understand these behaviours to stay relevant.
- **Tech Integration Challenges**: Merging traditional systems with new digital platforms requires careful planning to avoid compromising security or service quality.
- **Policy & Regulation Needs**: As digital payments expand, strong regulatory frameworks are needed to protect consumers and maintain financial stability.
- **Growing Competition**: Fintech startups and tech giants are reshaping the financial landscape. Traditional banks need to re-evaluate their strategies.
- **Workforce and Infrastructure Impact**: Automation and digital services are changing how banks deploy staff and manage their physical branches.

Objectives of the Study :

- To examine how customer awareness influences the adoption and usage of digital payment systems.
- To evaluate the relationship between a customer's income level and their usage of digital payment methods.
- To measure the frequency of payments done by customers through digital platforms.

2. Literature Review :

Digital payment systems—ranging from UPI and mobile wallets to internet banking—have significantly reshaped traditional banking by offering faster, more convenient financial services. This section reviews key national and international studies from 2010 to 2025, focusing on adoption patterns,

technological challenges, and institutional responses.

In India, **Baghla (2018)** and **Singh (2017)** observed that demonetization and rising smartphone use accelerated digital payment adoption. **Ravi (2017)** emphasized rural inclusion, supported by government-led digital literacy campaigns. **Roy & Sinha (2014)** and **Rakesh & Ramya (2014)** found that ease of use, legal infrastructure, and incentives drive digital adoption. **Nitsure (2014)** highlighted infrastructure and regulatory barriers in developing economies.

Globally, **Sanaz Zarrin Kafsh (2015)** reported that security and usability influenced mobile wallet adoption in Canada. **Dennehy & Sammon (2015)** pointed to the need for secure digital platforms, while **Foster et al. (2010)** showed a gradual shift from cash to digital transactions in the U.S. **Singh A. et al. (2012)** and **Oladejo et al. (2012)** stressed the importance of cybersecurity and digital systems in enhancing banking performance.

Recent studies show deeper disruption. **Arora & Meenu (2020)** and **Singh & Verma (2021)** argued that digital payments reduce reliance on physical banking. **Kale (2021)** linked UPI access to reduced branch visits. **Raman (2020)** noted UPI's role in rural financial inclusion. **Sharma (2022)** showed how fintech firms offer more agile, consumer-friendly alternatives to traditional banks. Thought leaders like **Brett King (2018)** and **Tapscott (2016)** called for digital-first banking and highlighted blockchain's potential to decentralize payments. **Puschmann (2017)** emphasized the need for banks to undergo internal digital transformation.

In sum, literature strongly supports that digital payments are not just a technological upgrade but a structural shift that banks must proactively embrace to stay relevant.

3.RESEARCH METHODOLOGY :

The research adopts a descriptive design to observe patterns in how customers are adopting digital payment methods and how this shift is affecting traditional banking practices like cash deposits, branch visits, and cheque usage. An analytical approach complements this by examining how digital payment adoption influences banking operations—particularly in areas such as staffing requirements, operational costs, and customer interaction. The aim is to assess how digital technologies are reshaping banking models and what new challenges and opportunities they present. The study is based on a sample of 70 individuals, including both bank customers and employees. Purposive sampling was used to select bank staff with relevant experience in digital banking, operations, and customer service. Primary data was collected using structured questionnaires and online surveys (through platforms like Google Forms), while selected interviews with banking professionals provided deeper qualitative insights. Secondary data was gathered from research papers, books, journals, news articles, and official bank websites to support the findings. Microsoft Excel and Google Sheets were used to analyze the data through basic statistical methods such as frequency distributions and percentages. This study is built on several key assumptions: that participants understand digital payments, that responses are truthful, that the sample is fairly representative, and that the data

4.DATA ANALYSIS AND INTERPRETATION :

The age distribution shows that the majority of digital payment users fall between 25 to 35 years (42.9%), followed by 18 to 25 years (35.7%), and those above 35 (21.4%). This suggests that younger and early middle-aged individuals are leading the adoption of digital payments, likely due to their higher digital literacy and preference for convenience. Gender-wise, usage is nearly balanced with 54.3% female and 45.7% male respondents, indicating that digital payments are widely accepted across genders.

A significant 85.7% of respondents reported using digital payment systems, which highlights a strong consumer shift toward digital channels over traditional banking. Among the various methods, UPI emerged as the most preferred (42.1%), followed by mobile wallets (21.4%), net banking (14.3%), and cards (14%). This preference reflects a growing inclination toward quick, mobile-first payment solutions. When asked about the safety of digital payments, 57.1% considered them safe, 28.6% found them somewhat safe, and only 14.3% did not trust them fully, showing a generally positive but cautious attitude toward digital security.

In terms of frequency, 28.6% of respondents use digital payments daily, 36% weekly, and 25% monthly, while only 14% use them rarely. This indicates that digital transactions are becoming part of regular financial behavior. However, challenges persist—over 54% reported facing connectivity issues, while others cited fraud, lack of awareness, or miscellaneous problems, highlighting the need for technical improvements and user education.

When asked about convenience, 74.3% of respondents found digital payments more convenient than cash, although 25.7% still preferred cash—possibly due to trust issues or limited access. Furthermore, 68.6% believed that education plays a role in digital payment adoption, implying that those with higher education levels may find it easier to engage with digital tools. Regarding impact on income, 29% said digital payments positively influenced their income, 37% somewhat, and 26% felt little to no impact, while 9% were unsure—suggesting some financial benefit, especially for small entrepreneurs and digital workers.

Most users (65.7%) rated digital platforms as very easy to use, and 27.1% found them somewhat easy, with no one finding them difficult, reflecting a strong user-friendly design across platforms. Finally, when asked to define digital payment systems, 55.7% identified them as instant modes of payment, 27.1% found them user-friendly, and 17.1% highlighted time-saving benefits. Notably, none of the respondents viewed digital payments as risky,

indicating growing trust and acceptance.

5.Conclusion :

India's move toward a cashless economy is more than just a trend—it marks a major shift in how we handle money and embrace convenience. Thanks to efforts by both the government and private companies, digital payments have become a part of daily life. Apps like PayTM, Google Pay, and PhonePe allow people to pay for groceries, send money, or recharge their phones with just a few taps.

However, this shift isn't without challenges. A lack of digital literacy and fear of fraud still holds back many users, especially in rural areas. Building trust through awareness campaigns, stronger security, and better infrastructure is essential to make digital payments truly accessible to all.

Despite these hurdles, the benefits are clear: digital payments save time, reduce theft risks, and bring more transparency to financial transactions. With over 90 billion transactions processed in 2022 and growing mobile internet access even in remote regions, India is already a global leader in digital payments.

Ultimately, moving toward a cashless economy is about more than just technology—it's about creating a more connected, efficient, and inclusive society. With the right support and mindset, India is well on its way to a digitally empowered future.

6.Future Research :

While this study sheds light on how digital payments are changing traditional banking, the financial world is evolving rapidly. There's still much to explore. Future research could focus on the long-term impact of digital payments on bank operations, staffing, and branch networks. Comparing adoption in rural vs. urban areas can reveal important gaps and guide more inclusive strategies. As customer habits shift, understanding what digital users want from their banks will help improve services. Research on how digital payments support financial inclusion is also key—especially in reaching underserved populations. Additionally, with rising cyber threats, studies on security and risk management will be crucial. The growing role of AI and fintech startups also deserves deeper exploration, especially their collaboration with traditional banks. Lastly, as new policies and regulations shape the digital space, it's vital to study their effects on innovation and access. Continued research will help ensure that the digital payment ecosystem grows stronger, safer, and more inclusive for everyone.

7.Suggestion :

As India embraces digital payments, it's essential for banks, fintech companies, and policymakers to work together to create a system that is not just efficient but also secure, inclusive, and user-friendly. Strengthening digital infrastructure is the first step—ensuring that transactions, whether small or large, are fast and seamless. Equally important is boosting cybersecurity, with strong encryption and clear communication to help users feel safe. Collaboration between traditional banks and fintechs can bring out the best in both worlds, offering innovative and stable solutions. Raising awareness through local-language education and guiding users, especially in rural areas, will help bridge the digital literacy gap. Bank staff also need updated training to support customers transitioning to digital platforms. While promoting digital, we must not forget those who still rely on physical branches—maintaining a hybrid banking model is key to inclusivity. Simplifying digital payment interfaces using easy language and clear steps can make a big difference for new users. Artificial Intelligence and data analytics can further improve the experience by offering personalized services. Strict adherence to RBI regulations and data protection laws is vital to ensure trust and stability. Lastly, regularly listening to user feedback helps institutions stay updated and responsive. Overall, the path to a strong digital economy lies in blending innovation with empathy, ensuring that digital finance works for everyone.

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