How cashless societies can boost financial inclusion—with the right safeguards

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Credit: AI-generated image (disclaimer)

Cashless societies, where transactions are entirely digital, are gaining traction in many parts of the world, particularly after a pandemic-era boom in demand for online banking.

Improvements in digital payment infrastructure such as mobile payments

, digital currencies and online banking, make it more convenient for people and businesses to buy and sell things without using cash. Even the Bank of England is looking into how a digital pound might work, showing the potential for a significant shift from physical cash to digital payments in the UK.

Fintech companies have accelerated the transition towards cashless payments with innovations including mobile payment apps, digital wallets, cryptocurrencies and online banking services. The COVID pandemic was also a tipping point that created unprecedented appetite for digital transactions. Fintechs emerged as a life line for many during lockdowns, particularly vulnerable populations that needed emergency lines of credit and ways to make and receive payments.

By 2021, approximately 71% of adults in developing countries had bank accounts. But this leaves nearly 30% of the population still needing access to essential financial products and services. Fintechs can provide more affordable and accessible financial services and products. This helps boost financial inclusion, particularly for the "unbanked", or those without a bank account.

In the UK, around 1.3 million people, roughly 4% of the population, lack access to banking services. The government and financial institutions have worked together to promote the adoption of digital payments, and the UK's Request to Pay service allows people and businesses to request and make payments using digital channels such as Apple Pay and Google Pay.

But other countries are moving faster towards a cashless society. In Sweden, only about 10% of all payments were made in cash in 2020. This move towards cashless payments in the country has been facilitated by mobile payment solutions like Swish, which people can use to send and receive money via mobile phone.

Boosting financial inclusion

India has gone even further. In less than a decade, the country has become a digital finance leader. It has also made significant progress in promoting digital financial inclusion, mainly through the government's flagship program, the Pradhan Mantri Jan Dhan Yojana (PMJDY).

India's banks also participate in mobile payment solutions like Unified Payments Interface (UPI), which can connect multiple accounts via one app. India's digital infrastructure, known as the India Stack also aims to expand financial inclusion by encouraging companies to develop fintech solutions.

Many developing economies are using digitalization to boost financial inclusion in this way. Kenya introduced its M-Pesa mobile money service in 2007. While microfinance institutions that provide small loans to low-income individuals and small businesses were first introduced in Bangladesh in the 1970s via the Grameen Bank project.

Digital lending has also grown in India in recent years. Its fintechs use algorithms and data analytics to assess creditworthiness and provide loans quickly and at a lower cost than traditional banks.

These innovative platforms have helped to bridge the gap between the formal financial system and underserved populations—those with low or no income—providing fast access to financial services. By removing barriers such as high transaction costs, lack of physical branches and some credit history requirements, fintech companies can reach a wider range of customers and provide financial services that are tailored to their needs.

It's the tech behind these systems that helps fintechs connect with their customers. The increased use of digital payment methods generates a wealth of data to gain insights into consumer behavior, spending patterns and other relevant information that can be used to further support a cashless society.

Helping the UK's unbanked

Countries like the UK could also promote digital financial inclusion to help unbanked people. But this would require a combination of government support, innovation and the widespread adoption of mobile payment solutions.

There are some significant challenges to overcome to create a true—and truly fair—cashless economy. For example, a cashless system could exclude people who do not have access to digital payment methods, such as the elderly or low-income populations. According to a recent study by Age UK, 75% of over 65s with a bank account said they wanted to conduct at least one banking task in person at a bank branch, building society or post office.

Providing more cashless options could also increase the risk of cybercrime, digital fraud such as phishing scams and data breaches—particularly among people that aren't as financially literate.

There is a dark side to fintech: algorithm biases and predatory lending practices negatively affect vulnerable and minority groups as well as women. Even major financial firms such as Equifax, Visa and Mastercard can get compromised by data breaches, creating valid concerns about data security for many people.

Cross-border transfer of personal data by fintech companies also concerns regulators, but there is still a lack of internationally recognized data protection standards. This should be addressed as the trend towards cashless societies continues.

Building guardrails

Regulations affect how fintech companies can provide financial services but ensure they operate within the law. Since fintech companies generally aim to disrupt markets, however, this can create a complex relationship with regulators.

Collaboration between regulators and fintech companies will boost understanding of these innovative business models and help shape future regulatory frameworks. Countries like India have shown the way in this respect. An innovation hub run by UK regulator the Financial Conduct Authority is a good start. It supports product and service launches and offers access to synthetic data sets for testing and development.

Fintech can help finance become more inclusive. But it needs policies and regulations that support innovation, promote competition, ensure financial stability and—most importantly—to help protect the citizens of these new cashless societies.

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