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RIGHT TO EXPLANATION IN INDIA: A MISSING PROTECTION IN AI-DRIVEN FINANCE

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ABSTRACT

Artificial intelligence (AI) is increasingly used in India's financial services for high-stakes decisions such as credit approval and insurance underwriting. However, the legal framework in India, specifically the Digital Personal Data Protection Act (DPDP Act), 2023, lacks explicit provisions on the right of individuals to receive explanations for automated decisions. Often, individuals get rejected for loans and insurance coverage with no explanation given as to what factors caused the rejection. This paper compares India's approach with the European Union's General Data Protection Regulation (GDPR), which offers a robust 'right to explanation' under Article 22. Using doctrinal and comparative legal methodology, the paper highlights the regulatory vacuum in India and offers practical reform suggestions to bridge this crucial gap in AI governance.

LIST OF CASES

Justice K.S. Puttaswamy (Retd.) v Union of India (2017) 10 SCC 1

ABBREVIATIONS

AI – Artificial Intelligence

DPDP Act – Digital Personal Data Protection Act GDPR – General Data Protection Regulation

RBI – Reserve Bank of India

SEBI – Securities and Exchange Board of India

IRDAI – Insurance Regulatory and Development Authority of India CFPB – Consumer Financial Protection Bureau

ECOA – Equal Credit Opportunity Act

FEAT – Fairness, Ethics, Accountability, Transparency

KEYWORDS:

Right to Explanation, GDPR Article 22, DPDP Act, AI Governance, Algorithmic

Transparency, Fintech Regulation, India, Automated Decision-Making, Credit Scoring.

I. INTRODUCTION AND RESEARCH METHODOLOGY

I.1 INTRODUCTION

The increasing adoption of Artificial Intelligence (AI) in the financial sector marks a new era in decision-making processes. Financial institutions now deploy AI-based systems to assess creditworthiness, determine insurance premiums, detect fraud, and offer investment advice through robo-advisory platforms. These applications rely on data-driven algorithms capable of analysing vast datasets with speed and precision that far exceed human capability.

However, while such automation promises efficiency and cost-reduction, it also raises significant legal and ethical concerns. Chief among these is the opacity of algorithmic decision-making, often referred to as the “black box” problem. This lack of transparency can lead to unfair or discriminatory outcomes, especially when AI systems operate without human oversight or redress mechanisms.

In jurisdictions like the European Union, the General Data Protection Regulation (GDPR)¹ has taken a proactive approach in addressing these concerns. Article 22 of the GDPR provides individuals with the right not to be subjected to decisions based solely on automated processing that significantly affects them. Furthermore, supporting provisions require data controllers to explain the logic behind such decisions and to offer human intervention upon request. In contrast, India’s Digital Personal Data Protection Act (DPDP Act) 2023², while commendable for establishing core data protection principles, lacks equivalent provisions regarding algorithmic accountability. This gap is especially pronounced in the fintech sector, where automated systems influence access to credit and insurance.

The existing Indian legal landscape remains underprepared to regulate AI-driven decision-making in financial services. The absence of specific provisions related to automated decisions undermines the principles of fairness, accountability, and due process. The regulatory silence on the right to explanation leaves Indian consumers without sufficient recourse against algorithmic harms, particularly in decisions such as loan rejection or calculation of insurance premiums.

¹ Regulation (EU) 2016/679, General Data Protection Regulation, Article 22

² Digital Personal Data Protection Act, 2023 (India)

I.2 RESEARCH METHODOLOGY

I.2.1 RESEARCH PROBLEM

The central issue is the absence of a legally enforceable right to explanation in India's data protection and financial regulatory frameworks. In a context where AI increasingly influences individual rights and economic opportunities, this regulatory vacuum poses serious threats to consumer protection and constitutional rights.

I.2.2 HYPOTHESIS

The hypothesis of this paper is as follows: India's current legal framework, specifically the DPDP Act 2023, inadequately addresses algorithmic accountability and explainability in financial services, creating a gap that violates constitutional principles of due process and equality under Article 14 of the Indian constitution.

I.2.3 OBJECTIVES

The objectives of the research in this paper are four-fold: To analyse the regulatory vacuum in India's AI governance framework, to compare India's approach with international best practices, to identify constitutional implications of algorithmic opacity and to propose targeted legislative and regulatory reforms

I.2.4 REVIEW OF LITERATURE

The literature on algorithmic accountability in India's financial services ecosystem reveals an emerging yet fragmented scholarly and policy discourse. This paper refers to academic and legal commentaries that critically engage with the challenges posed by opaque AI systems in the financial domain.

Rahul Matthan, in *The Third Way*³, argues for a tiered regulatory model that calibrates legal obligations based on risk, rather than applying blanket restrictions. His work cautions against overregulation that could stifle innovation, while also highlighting the dangers of leaving high-risk AI applications like credit scoring unchecked. He emphasizes the need for algorithmic explainability as a necessary component of financial fairness and due process.

Vidushi Marda and Amber Sinha⁴, in their empirical study on fintech lending in India, highlight deficiencies in consent frameworks and raise concerns about discriminatory decision-making.

³ Rahul Matthan, *The Third Way: Bridging the AI Regulation Gap in India*, 2023

⁴ Marda, Vidushi and Sinha, Amber (2022) "FinTech Lending in India: Taking Stock of Implications for Privacy and Autonomy," *Indian Journal of Law and Technology*: Vol. 18: Iss. 1, Article 6. Available at: <https://repository.nls.ac.in/ijlt/vol18/iss1/6>

They underscore how data-driven credit models often operate without meaningful oversight or user understanding.

Legal analysis from Spice Route Legal⁵ supplements these academic perspectives by emphasizing statutory shortcomings in the DPDP Act 2023. Unlike the GDPR, the DPDP Act does not contain an enforceable right to explanation, nor does it provide for opt-outs from automated profiling. Spice Route's commentary draws attention to areas around liability for algorithmic outcomes and the lack of transparency obligations in India's AI governance.

Together, these sources point to a shared concern: India's regulatory approach is reactive and underdeveloped when it comes to protecting individuals from opaque and potentially discriminatory AI-based financial decisions. Despite a growing recognition of AI's social and economic impact, the absence of a legally enforceable right to explanation remains a void in Indian data protection and financial regulation.

This paper builds upon these insights to argue that codifying such a right is not merely desirable, but essential for aligning India's fintech governance with constitutional principles and international standards.

I.2.5 METHODOLOGY

This paper adopts a doctrinal legal methodology supplemented by comparative analysis. The primary sources include statutory instruments such as the DPDP Act, 2023 and the General Data Protection Regulation (GDPR), along with guidelines issued by sectoral regulators such as the Reserve Bank of India (RBI)⁶ and the Securities and Exchange Board of India (SEBI)⁷. Secondary sources include scholarly commentary from Vidushi Marda and Amber Sinha, Rahul Matthan, legal research reports from Spice Route Legal, and international academic literature.

No empirical fieldwork has been conducted. However, the paper incorporates illustrative case studies, such as the Apple Card bias incident⁸ in the United States and RBI's intervention in India's digital lending sector, to demonstrate real-world implications.

I.3 RESEARCH PROBLEM

The central issue explored in this paper is the absence of a legally enforceable right to explanation in India's data protection and financial regulatory frameworks. In an environment

⁵ Spice Route Legal, Privacy and Data Protection: Critical Analysis of the DPDP Act, 2023

⁶ Reserve Bank of India. Guidelines on Digital Lending. 2022,

⁷ Securities and Exchange Board of India. Safer Participation of Retail Investors in Algorithmic Trading. 2025

⁸ Taylor Telford, 'Apple Card Algorithm Sparks Gender Bias Allegations', The Washington Post, 2019

where AI is increasingly influencing individual rights and economic opportunities, the lack of statutory safeguards against opaque automated decisions poses a threat to consumer protection and financial inclusion.

I.4 RESEARCH OBJECTIVES

- To explore the legal vacuum surrounding automated decision-making in India's financial sector.
- To compare India's legal approach with GDPR's Article 22 and related provisions.
- To identify constitutional and regulatory implications of algorithmic opacity.
- To propose legislative and regulatory reforms tailored to India's fintech ecosystem.

I.5 RESEARCH QUESTIONS

- What are the key legal concerns arising from AI-based automated decisions in finance?
- How does the DPDP Act address or fail to address these concerns?
- What rights do individuals have under GDPR that are absent in Indian law?
- What reforms could ensure algorithmic accountability in the Indian context?

I.6 SCOPE AND RELEVANCE OF THE STUDY

The study focuses on the regulation of AI-based decision-making in Indian financial services. It highlights the inadequacy of current laws in India to protect users from arbitrary or opaque decisions and draws lessons from global practices, particularly GDPR. With India poised to become a global fintech hub, establishing ethical and legally sound AI governance frameworks is both urgent and indispensable.

I.7 LIMITATIONS

This paper is limited to doctrinal analysis and publicly available case studies. It does not include technical audits of AI algorithms used in financial decisions or interviews with affected consumers. As technology and law evolve rapidly, some observations may become outdated. However, the paper offers a foundational critique that remains relevant to ongoing policy discussions.

II. THE INDIAN LEGAL FRAMEWORK FOR AI

I.8 OVERVIEW OF THE DPDP ACT 2023

The DPDP Act 2023 is India's first overarching law related to data privacy. The Act is grounded in principles such as lawful processing, purpose limitation, data minimization, and consent. While the Act defines obligations for data fiduciaries (entities which are responsible for purpose and means of processing personal data) and grants rights to data principals (whose personal data is being processed), it remains silent on the specific challenges posed by automated decision-making such as in AI algorithms. It does not provide individuals the right to seek human intervention, to contest algorithmic decisions, or to receive meaningful explanations, which are explicitly granted under GDPR Article 22.

I.9 FINTECH AND AUTOMATED DECISION-MAKING

AI-based models are increasingly deployed in Indian fintech applications such as credit scoring, insurance underwriting, and algorithmic trading. Startups and digital lenders utilize non-traditional data, such as social media usage, call records, and device metadata, to build credit profiles. These practices, while innovative, often rely on proprietary algorithms that lack transparency or third-party auditing. According to Marda and Sinha (2022)⁹, the use of opaque algorithms in lending apps has resulted in non-consensual data use and discriminatory decisions. These applications often process sensitive personal data without providing clarity on decision logic or scope for challenge.

I.10 REGULATORY RESPONSES BY RBI AND SEBI

Recognizing the potential for misuse by digital lending apps and lenders, the Reserve Bank of India (RBI) issued Guidelines on Digital Lending in 2022. These require lending to be conducted only by regulated entities, make user consent mandatory, and introduce basic mechanisms for redressal. However, they stop short of requiring explainability or algorithmic transparency. The Securities and Exchange Board of India (SEBI), which oversees algorithmic trading, has also introduced some controls. Yet, no Indian regulator presently mandates algorithmic audits or disclosure of decision-making logic.

⁹ Vidushi Vidushi and Amber Sinha. "FinTech Lending in India: Taking Stock of Implications for Privacy and Autonomy." *Indian JL & Tech.* 18 (2022): 100.

I.11 LACK OF REDRESS MECHANISMS

The absence of a legally mandated right to explanation leads to a scenario where consumers are subject to “algorithmic absolutism.” An individual denied a loan or charged a high insurance premium may never know the reasons or be able to challenge the outcome. This is not merely a procedural gap but a significant one with far-reaching implications. It deprives users of autonomy and exposes them to systemic biases embedded in historical data.

I.12 PRIVACY UNDER INDIAN CONSTITUTION

The Supreme Court of India’s landmark ruling in *Justice K.S. Puttaswamy (Retd.) v. Union of India* (2017)¹⁰ recognised the right to privacy as a fundamental right under Article 21 of the Constitution. The judgment emphasized informational autonomy, data protection, and due process. In principle, these rights demand transparency in how personal data is processed and decisions are made. Yet, the DPDP Act falls short in following these principles when it comes to automated decision-making by AI in finance.

I.13 CONCLUSION

Despite the forward-looking nature of the DPDP Act, its failure to incorporate safeguards against harmful or opaque AI decisions represents an important regulatory shortcoming. As India continues to digitalise its financial services ecosystem, the lack of a right to explanation threatens to erode public trust and expose individuals to unfair treatment without any remedies. Future reforms must address these omissions to create a more inclusive and rights- based legal framework for AI in finance.

III. COMPARATIVE LEGAL APPROACHES: GDPR VS DPDP

3.1 UNDERSTANDING GDPR ARTICLE 22

The General Data Protection Regulation (GDPR), enacted by the European Union (EU), is globally recognized as one of the most comprehensive frameworks for data protection and digital rights. Article 22 of the GDPR specifically deals with automated individual decision-making, including profiling. It grants individuals the right not to be subject to a decision based solely on automated processing (such as by an AI algorithm) which produces legal or similarly significant effects.

Under Article 22(3) of the GDPR, such automated processing is permissible only if it is

¹⁰ Justice K.S. Puttaswamy (Retd.) v. Union of India, (2017) 10 SCC 1

necessary for the performance of a contract, authorized by Union or Member State law, or based on the data subject's explicit consent. Even then, suitable safeguards must be provided, including the right to obtain human intervention and to contest the decision. Additionally, Articles 13 to 15 of the GDPR reinforce transparency obligations by requiring data controllers to provide meaningful information about the logic involved in the decision-making.

This legal structure is rooted in the EU's emphasis on individual autonomy and human dignity. In financial contexts, these provisions ensure that a customer who is denied credit or subjected to profiling has the right to know why, to challenge the outcome, and to demand a human review.

3.2 PROVISIONS UNDER INDIA'S DPDP ACT

India's DPDP Act 2023, while progressive in many respects, lacks any direct analogue to Article 22 of the GDPR. Although the DPDP Act provides broad rights such as access to personal data, correction, and grievance redress, it does not explicitly address automated decision-making. There is no statutory right to contest algorithmic decisions or demand human intervention. Furthermore, the DPDP Act does not obligate data fiduciaries to disclose the logic or reasoning behind automated processing. This omission is critical in the financial sector where opaque algorithms increasingly determine outcomes of significant consequence to individuals, such as credit approvals, insurance premiums, and investment advice. This absence constitutes a major weakness in India's regulatory framework. Without statutory guarantees of transparency, redress, and human review, individuals remain vulnerable to what scholars have termed "algorithmic opacity."

3.3 IMPLICATIONS OF THE DIVERGENCE

The legal asymmetry between the GDPR and DPDP Act has profound implications. In the European Union, the right to explanation functions as a safeguard against discrimination, profiling, and arbitrary treatment. It reinforces the broader rights to privacy and fair treatment in the digital economy. In contrast, the Indian framework offers no such protection. Financial institutions may rely entirely on algorithmic systems to make decisions that affect people's economic well-being, without being required to justify or explain those decisions to the affected parties. This undermines due process and self-determination in information, both of which have been recognized as constitutional rights in the Indian legal system post- *Puttaswamy*.

Moreover, as AI systems become more entrenched in Indian finance, the lack of a right to explanation may create a two-tier system of data rights, where multinational companies have

to comply with strict EU standards but face fewer obligations in India. This could encourage regulatory arbitrage by multinational companies and result in weaker protections for Indian citizens.

3.4 COMPARATIVE BENEFITS OF THE GDPR MODEL

The GDPR framework is not without criticisms, particularly related to compliance costs and administrative burden for companies. However, it provides a comprehensive model for ensuring algorithmic accountability. Scholars such as Wachter, Mittelstadt, and Floridi (2017)¹¹ argue that even if a perfect “right to explanation” is not technically feasible for complex models, the legal principle promotes transparency and fairness. By embedding rights of contestation and human review into law, the GDPR bridges the accountability gap in AI governance. Thus, this model could serve as a valuable reference point for Indian legal reform. As noted in the Spice Route Legal report on India’s DPDP Act, the lack of similar provisions risks putting India behind global standards in digital rights.

3.5 CONCLUSION

In this section, we have shown that while the GDPR ensures comprehensive safeguards against opaque and potentially harmful AI decisions, India’s DPDP Act currently lacks equivalent provisions. The absence of a right to explanation or human intervention in India represents a regulatory vacuum that must be addressed through legislative or regulatory reform. As AI systems increasingly shape financial outcomes, India must consider adapting its legal framework to uphold constitutional principles of fairness, equality, and transparency.

IV. CASE ILLUSTRATIONS AND SECTORAL RELEVANCE

4.1 DIGITAL LENDING IN INDIA

The Indian fintech ecosystem has seen a surge in digital lending platforms, many of which rely on AI to assess borrower risk. These platforms often use alternative data sources such as smartphone metadata, social media activity, and transaction patterns to make automated lending decisions. However, this innovation has been accompanied by numerous regulatory concerns, particularly during the COVID-19 pandemic when several unregulated apps were found to use coercive recovery methods and opaque algorithms.

¹¹ Wachter, Sandra, Brent Mittelstadt, and Chris Russell. “Counterfactual explanations without opening the black box: Automated decisions and the GDPR.” *Harv. JL & Tech.* 31 (2017): 841.

According to the RBI's *Guidelines on Digital Lending* (2022), only regulated entities are now allowed to undertake lending, and disclosure of data practices has been mandated.

Nonetheless, these guidelines do not include enforceable provisions for algorithmic transparency or explainability. As highlighted by Marda and Sinha (2022), the lack of information about how risk scores are calculated leaves borrowers unable to understand or contest rejections.

4.2 APPLE CARD BIAS CASE (USA)

An instructive example is the Apple Card case in the United States (2019), where Apple and Goldman Sachs were accused of gender discrimination in credit limit allocation by their AI algorithm. Although the companies denied the use of gender as a variable, the New York Department of Financial Services investigated the incident due to concerns about proxy discrimination. The case brought attention to the risks of using black-box models and underscored the importance of transparency and contestability, even in private sector AI applications.

Importantly, while the U.S. lacks a GDPR-style right to explanation, the Equal Credit Opportunity Act (ECOA)¹² requires financial institutions to issue adverse action notices specifying reasons for credit denial. This legal obligation indirectly promotes transparency and fairness

4.3 RISKS ARISING FROM ABSENCE OF EXPLAINABILITY

The lack of a right to explanation in Indian law results in a number of tangible and intangible risks:

- **Discrimination and Bias:** AI systems trained on biased historical data can perpetuate and amplify existing inequalities, especially in access to credit and insurance.
- **Lack of Redress:** Without legal rights to obtain explanations or challenge decisions, affected individuals have no recourse against automated harm.
- **Constitutional Violation:** As recognized in *Justice K.S. Puttaswamy v. Union of India* (2017), the right to privacy includes informational autonomy and due process—both of which are undermined by unaccountable algorithmic decision-making.
- **Regulatory Arbitrage:** Financial firms may exploit India's weaker regulatory regime to deploy riskier models that would not be permissible in jurisdictions like the EU.

¹² Equal Credit Opportunity Act, 12 CFR Part 1002 (Regulation B)

- **Erosion of Trust:** The absence of explainability can erode public trust in digital financial systems, deterring uptake and innovation.

4.4 INTERNATIONAL BEST PRACTICES AND LESSONS FOR INDIA

The GDPR's Article 22 and the U.S. ECOA offer contrasting but instructive models. While GDPR takes a rights-based approach mandating human review and transparency, the U.S. model emphasizes sectoral obligations, such as requiring reasons for credit decisions.

Singapore's Monetary Authority (MAS) has introduced the FEAT principles¹³, which are Fairness, Ethics, Accountability, and Transparency, as part of its ethical AI governance in finance. These guidelines are intended to be incorporated into organizational conduct, ensuring that AI outcomes are not only lawful but also socially just.

India's DPDP Act could be strengthened by adopting a hybrid approach, incorporating rights-based safeguards, sector-specific explainability obligations, and ethical governance standards. This would align India with global norms while also accommodating domestic economic realities.

4.5 CONCLUSION

The absence of enforceable explainability in AI-driven financial systems exposes Indian consumers to significant risks. Through a review of both domestic developments and international case studies, it is evident that legal reform is necessary to embed transparency and accountability into the core of financial algorithmic governance. As technology continues to evolve, India must ensure that its legal frameworks evolve in parallel to protect rights, ensure fairness, and foster public trust.

V. LEGAL AND CONSTITUTIONAL CONCERNS

5.1 ABSENCE OF DUE PROCESS IN AUTOMATED DECISIONS

The absence of a right to explanation in Indian law raises questions regarding the principles of natural justice and due process. When decisions such as denial of credit or insurance premiums are made by AI algorithms without providing the affected individuals an opportunity to know the reasons for denial or to contest the decision, fundamental principles of fairness are violated. This is particularly problematic in financial services, where such decisions can have economic and social repercussions.

¹³ Monetary Authority of Singapore, 'FEAT Principles', 2018

While financial regulators such as the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) have issued sectoral guidelines for digital lending and algorithmic trading, these do not address the deeper issue of transparency in automated decision-making. The affected individuals remain unaware of whether an adverse decision was the result of biased data, flawed algorithmic logic, or inadequate governance structures.

As pointed out by Matthan (2023)¹⁴, transparency in AI decision-making must not be considered a luxury but a necessity when such decisions impact fundamental rights.

5.2 INTERSECTION WITH THE RIGHT TO PRIVACY

The Supreme Court of India in *Justice K.S. Puttaswamy (Retd.) v. Union of India* (2017) recognised the right to privacy as a fundamental right under Article 21 of the Constitution. Informational autonomy, a core component of this right, demands that individuals be made aware of how their personal data is being processed, especially when it leads to automated decisions affecting their lives.

However, the DPDP Act does not currently mandate transparency around profiling or automated processing. In the absence of a right to explanation, individuals are deprived of the ability to exercise informed control over their data. This omission weakens the implementation of *Puttaswamy* and undermines the democratic values of accountability and human dignity. Courts may soon be called upon to decide whether non-disclosure of algorithmic logic (particularly by AI) amounts to a constitutional violation, particularly when such logic is used in governance or financial inclusion schemes.

5.3 LACK OF ACCOUNTABILITY IN PRIVATE SECTOR USE OF AI

A particularly complex issue arises when considering the role of private entities in deploying AI systems. Most financial technologies in India are developed and operated by private firms, often without sufficient regulatory oversight. Constitutional remedies, such as fundamental rights protections, are traditionally enforceable only against state action. This means that individuals who are affected by the algorithmic decisions of private financial institutions have limited legal recourse.

This regulatory gap could be addressed by creating statutory duties of fairness, transparency, and explainability that apply to both public and private data fiduciaries. The inclusion of such duties in sectoral regulations or amendments to the DPDP Act could ensure a more

¹⁴ Rahul Matthan, *The Third Way: Bridging the AI Regulation Gap in India*, 2023

comprehensive rights framework.

5.4 NEED FOR LEGAL CODIFICATION OF ETHICAL PRINCIPLES

Ethical frameworks such as the Monetary Authority of Singapore's FEAT principles have set global benchmarks in aligning algorithmic decision-making with fairness, ethics, accountability, and transparency. However, in India, ethical AI remains a policy discussion rather than a legal requirement.

Legal scholars such as Truby et al. (2020)¹⁵ argue that self-regulation by financial companies alone is insufficient to prevent algorithmic harm. What is needed is legal codification, enshrining ethical expectations into binding statutes or enforceable regulatory standards. This could include mandatory documentation of algorithmic audits and review mechanisms within financial institutions.

5.5 CONCLUSION

The growing use of AI in financial decision-making gives rise to constitutional, regulatory, and ethical concerns. Without a legal right to explanation, individuals are left vulnerable to opaque systems that may replicate and reinforce societal biases. It is crucial that Indian lawmakers consider not only consumer protection but also constitutional jurisprudence and global legal standards while designing AI regulatory frameworks. Codifying the right to explanation, ensuring redressal mechanisms, and extending legal obligations to private actors such as financial companies are necessary steps toward upholding transparency, fairness, and accountability in India's evolving digital economy.

VI. RECOMMENDATIONS FOR REFORM

6.1 STATUTORY RECOGNITION OF THE RIGHT TO EXPLANATION

The foremost step in bridging the regulatory gap is to introduce an explicit right to explanation within the DPDP Act, 2023. This right should entitle individuals to request and receive meaningful information about the logic, significance, and potential consequences of decisions made solely through automated processing. It must also include the right to seek human intervention, give one's views and contest the decision, similar to the safeguards mandated under Article 22 of the GDPR. Such a codification would harmonize India's legal framework

¹⁵ Truby, Jacob, Robert Brown, and Ahmad Dahdal. "Banking on AI: Mandating a Proactive Approach to AI Regulation in the Financial Sector." *Law and Financial Markets Review*, vol. 14, 2020, pp. 110–120

with international norms and reinforce constitutional protections of privacy and due process.

6.2 MANDATING ALGORITHMIC TRANSPARENCY FOR HIGH-RISK SECTORS

Regulatory frameworks must distinguish between low-risk and high-risk AI applications. Financial services such as loans and insurance, due to their direct impact on livelihoods, should be categorised as high-risk. For such high-risk domains, mandatory algorithmic transparency should be introduced. This would involve mandatory disclosures by financial companies regarding the data inputs, processing logic, and limitations of the AI algorithms. Transparency mechanisms could be included with regulatory submissions, consumer notices, or third-party audits, thereby providing accountability without stopping innovation.

6.3 IMPLEMENTATION OF ADVERSE ACTION NOTICES

Taking an important feature from the U.S. Equal Credit Opportunity Act (ECOA), Indian financial institutions should be required to issue written notices whenever an algorithmic system denies a service or benefit, such as denying a housing loan. Such notices should outline the primary reasons for the decision and the data relied upon. Such a requirement would not only promote transparency but also enable affected individuals to seek remedies, reduce bias, and promote responsible innovation.

6.4 ESTABLISHMENT OF INSTITUTIONAL AI ETHICS BOARDS

Financial institutions, particularly large lenders and insurers, should be mandated to form internal AI ethics committees. These bodies would oversee fairness assessments, ensure alignment with constitutional rights, and guide the deployment of AI systems. Drawing inspiration from Singapore's FEAT principles, these committees could review AI algorithms prior to deployment, monitor for discriminatory patterns, and act as internal adjudicators for disputes arising from automated decisions. Regulatory bodies such as RBI and SEBI can make such governance mechanisms mandatory.

6.5 SECTOR-SPECIFIC REGULATIONS AND ENFORCEMENT POWERS

India's financial regulators must take a more proactive role in governing AI. The Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), and the Insurance Regulatory and Development Authority of India (IRDAI) should be empowered to issue binding norms on algorithmic decision-making. These may include requirements for bias testing of AI algorithms,

explainability protocols for AI decisions, and grievance redressal procedures.

6.6 CONCLUSION

To create a robust, equitable, and transparent AI ecosystem in Indian financial services, legal reform must be undertaken at both legislative and regulatory levels. By incorporating the right to explanation, mandating algorithmic transparency, requiring disclosures in case of adverse decisions, creating AI ethics boards, and empowering the regulators such as SEBI, India can align itself with global best practices while safeguarding the rights and dignity of its citizens in an increasingly automated world.

VII. CONCLUSION

India's financial ecosystem is rapidly embracing artificial intelligence (AI), which has a major transformative potential in finance. However, this evolution also demands an evolution in legal protections. As we showed in this paper, the current regulatory framework under the DPDP Act 2023 falls short of addressing the challenges posed by opaque and consequential automated decision-making by AI algorithms.

In contrast to jurisdictions like the European Union and its GDPR, where the right to explanation is legally recognized, India lacks statutory safeguards that empower individuals to understand, question, or challenge AI-driven outcomes. This absence threatens to undermine both constitutional values and consumer protection in the financial sector.

Adopting a statutory right to explanation is not a mere import of foreign legal doctrine but a constitutional necessity grounded in India's own jurisprudence, especially post-*Puttaswamy*. Furthermore, integrating principles of algorithmic transparency, institutional accountability, and regulatory oversight will ensure that AI in finance serves the broader goals of equity and justice. The right to explanation is not only a safeguard against automation and discrimination, but also a tool for digital transformation in India's financial future.