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THE APPLICATION OF ARTIFICIAL INTELLIGENCE IN CREDIT RISK EVALUATION: OBSTACLES AND OPPORTUNITIES IN PATH TO FINANCIAL JUSTICE

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Abstract
Despite global efforts, financial inclusion has been a persistent challenge as millions of people are excluded by traditional credit assessing systems due to their systemic biases and outdated assessment models. The introduction of Artificial Intelligence (AI) and Machine Learning (ML) in the financial sector offers impactful solutions to these inequalities. This article demonstrates the diverse potential of these technologies to completely transform the landscape of credit risk analysis. In this context, the use of diverse datasets and alternative data sources such as rental payments, utility bills, and employment history, enables AI-powered platforms to provide a complete picture of a person's creditworthiness. When properly developed on the principles of equity, these algorithms can help in eliminating discriminatory patterns, pushing financial institutions toward a more equitable and inclusive credit system. Therefore, as technology continues to evolve, its growth can be strategically applied to promote the responsible use of AI, with machine learning serving as a tool for creating a fairer credit environment and advancing financial justice.

INTRODUCTION

Financial inclusion remains one of the most pressing challenges of modern-day world, with millions of people and small enterprises unable to access vital financial services. Conventional credit systems make it possible to identify and deny credit to high-risk, high-default applicants. Modeling algorithms are essential to this process as they establish standards for loans or lines of credit based on financial benchmarks (e.g., credit history, adequate formal employment) which systematically excludes those operating within informal economies or lacking traditional financial documentation (Mhlanga, 2021). These approaches to assess creditworthiness have major deficiencies in emerging markets — and this has been particularly damaging to economic inequality, as an ever-growing segment of the population is effectively locked out of the system. Low-income customers and small and micro businesses are rejected even for low-rate loans. However today, despite these many credit roadblocks, some institutions are bridging the gaps with an advance system of monetary assessment, whose takes into account an overall range of information in assessing creditworthiness (Bartlett et al., 2019).

These problems can be solved by utilizing A.I. and alternative data analytics. For instance, utility payment performance data and rent payment performance data, which are particularly relevant to the basic KYC clauses of traditional finance, can be included in the credit scoring system, which will make the scoring system more comprehensive and representative. Additionally, it works to eliminate systemic obstacles to finance, allowing for a more equitable and inclusive model for lending analysis. Having this Data can completely revolutionize this process using AI and ML to make credit scoring accurate, fairer and inclusive. These technologies that scan large diverse data sets are adept at spotting trends that traditional methods frequently miss. By harnessing AI based models, it can include such social media activity, payment records, transaction behaviours—analysing these to derive insights into customer creditworthiness (Oliver & Shapiro, 2006). AI can also be a helpful tool in reducing biases. AI models can be trained on context-specific assumptions or "rules" rather than rigid criteria. Additionally, they can be designed to identify and mitigate historical inequities embedded in various data types. For instance, advanced algorithmic systems differ from conventional algorithms in that they can detect and correct systemic biases that disproportionately affect certain groups (Obermeyer et al., 2019). However, if applied incorrectly, these same tools can exacerbate bias rather than reducing it. Discriminatory outcomes often result from biased training data, unregulated algorithmic models, and opaque decision-making processes. Given that AI and machine learning are among the most rapidly evolving technologies shaping society, there is a urgent need for comprehensive standards and ethical guidelines to ensure their application upholds fairness and inclusivity rather than undermining them.

1. The functioning of traditional credit scoring

For decades, conventional credit scoring models have served as the foundation for issuing letters of credit, relying on standardized formats and fixed expectations when assessing individuals and organizations for risk and creditworthiness. These models primarily evaluate individuals based on a limited set of data points, such as credit history, payment behavior, outstanding debts, and credit utilization ratios. Lenders then use these scores to offer various credit products, such as loans and credit cards, under different terms (Dastile et al., 2020).

While these systems effectively assess individuals with strong credit histories, they systematically exclude large segments of the population, particularly underserved communities. Many individuals, especially low-income earners and informal workers, lack the official financial records that traditional models require, preventing them from accessing affordable financial products and services (Rothstein, 2017).

Traditional credit scoring frameworks also fail to incorporate alternative data sources, such as rent payment histories, utility bill payments, and gig economy income. As a result, these models reinforce systemic biases, disproportionately disadvantaging marginalized communities that are less likely to possess a conventional credit history. By perpetuating financial inequities, they widen the resource gap between affluent individuals and underserved populations. Given the exclusionary nature of conventional credit scoring, adopting more pragmatic and inclusive assessment mechanisms—ones that reflect a broader spectrum of financial realities—may offer a more equitable approach to credit evaluation.

2. Systematic biases in the current credit scoring system

As discussed earlier, traditional credit scoring models introduce biases and create barriers that hinder access to financial services. Furthermore, the intersection of historical data and statistical methods presents a complex challenge. Conventional models fail to consider financial behaviors outside the formal banking system, such as timely rent and utility payments—key financial activities for many underserved populations. This structural deficiency perpetuates financial exclusion (Hué et al., 2017).

Machine learning (ML) algorithms, which attempt to generate credit scores based on historical data, often inherit and amplify existing biases. Rather than mitigating disparities, these algorithms tend to reinforce them, leading to discriminatory outcomes. Empirical evidence suggests that predictive models used in lending decisions disproportionately benefit certain groups while disadvantaging others. The consequences of such biases are profound: individuals from lower-income backgrounds face higher interest rates, lower approval rates, and fewer opportunities for financial advancement. This systemic obstruction further entrenches existing economic disparities, reinforcing rigid wealth divisions (Arora & Kaur, 2019).

3. The need of modernization of Credit Scoring Method

There is an urgent need for more inclusive, accurate, and dynamic credit evaluation systems. If mainstream models fail to serve underserved populations, the financial sector must adopt more equitable and inclusive alternatives. Emerging technologies, such as Artificial Intelligence (AI) and Machine Learning (ML), can play a crucial role in addressing these limitations. By incorporating alternative data sources—such as rental payment histories, utility bills, and mobile phone usage patterns—these tools can provide a more comprehensive assessment of creditworthiness, thereby improving access to credit for underserved communities (Mhlanga, 2021).

Furthermore, through the implementation of ethical AI practices and structural oversight mechanisms, these models can mitigate algorithmic biases that often reinforce financial disparities. To prevent the perpetuation of discrimination and inequality, credit evaluation processes must be designed with transparency, inclusivity, and accountability at their core. Such innovations will not only enhance financial accessibility but also enable banks to remain at the forefront of a future financial system that is fair, transparent, and equitable (Bücker et al., 2020).

4. The logic behind adopting AI devices for Credit Risk Analysis

Artificial Intelligence (AI) and Machine Learning (ML) have not only revolutionized credit scoring systems but have also addressed the limitations of traditional methods by leveraging large and diverse datasets. High-performing and sophisticated algorithms enable data mining to identify correlations and dependencies in financial behaviors, providing a more comprehensive assessment of creditworthiness and more precise risk-based pricing. Unlike classical models, which rely on predefined equations, AI and ML models are data-driven and continuously improve over time. The more data they process, the more refined and accurate their predictions become.

AI and ML algorithms are particularly well-suited for big data, incorporating both structured data (e.g., income and payment history) and unstructured data (e.g., social media activity). The data preprocessing stage—an essential first step—requires cleaning, normalizing, and encoding raw inputs for analysis, which often come from heterogeneous sources. These models are then trained using supervised learning, where labeled datasets help build predictive models, or unsupervised learning, which detects latent patterns in unlabeled data. Once trained, these models generate individualized credit risk assessments.

For example, a neural network can analyze thousands of variables—including spending patterns, income fluctuations, and payment history—when calculating a credit score. Moreover, advanced models such as gradient boosting machines and random forests may be better suited to capturing complex dependencies that conventional credit scoring systems often overlook (Gambacorta et al., 2024).

AI can also function as an on-demand credit risk evaluator, allowing lenders to adjust models dynamically based on real-time financial behaviors. This capability is particularly valuable for young adults who lack conventional credit histories, as recent and alternative data sources can facilitate more accurate and equitable credit assessments.

A. The significance of Non-Traditional or Alternative Data for Credit Evaluation

Traditional credit scoring systems rely on factors such as credit history and documented income, often excluding individuals who lack mainstream access to financial services. In contrast, non-traditional data sources—such as rent receipts, utility bills, and e-commerce transactions—offer a more comprehensive assessment of an individual's creditworthiness. For example, timely rental payments demonstrate financial responsibility and stability, while a consistent utility bill payment history reflects effective cash flow management.

Moreover, mobile data and digital transaction records, including mobile money transfers, provide deeper insights into spending patterns and financial behaviors that are not captured by conventional market data (Ferrara, 2023). These alternative data sources are particularly valuable for assessing credit risk among underserved populations, such as low-income workers and small-scale entrepreneurs. By incorporating non-traditional metrics into credit evaluation models, financial institutions can develop a more inclusive and accurate representation of an individual's financial status, ensuring that credit assessments better reflect diverse economic realities.

B. The role of AI and ML technology in advancing financial inclusion

AI and Machine Learning (ML) hold significant promise in expanding access to credit, addressing the inequities that have been entrenched in financial systems for generations. These technologies leverage alternative data and machine learning algorithms to assess the creditworthiness of potential borrowers. One major opportunity lies in lending to gig economy workers and small-scale entrepreneurs, who often lack formal employment records or credit histories, making them invisible to traditional credit scoring systems. AI-driven models can use alternative data points—such as ride-sharing income or online sales—to evaluate these individuals' ability to repay loans (N. J. N. Chukwunweike et al., 2024).

AI-enabled financial inclusion initiatives have proven particularly effective in rural communities within developing economies. By analyzing transaction data from mobile wallets, AI has facilitated mobile-based credit systems, enabling micro-lending for individuals without access to traditional banking services. In countries like Kenya and India, these initiatives, such as M-Pesa and Paytm, have been successful in bridging the financial gap between individuals.

Moreover, inclusive credit systems can also promote gender equality by empowering women entrepreneurs. Many women in underserved areas face structural barriers to obtaining credit, despite demonstrating financial stability. AI models can account for community savings contributions and cooperative lending histories, helping to circumvent these barriers and unlock new opportunities for growth.

5. The promotion of fairness and transparency in AI systems

A. The need for detecting Biases within Algorithms

Bias in algorithms primarily stems from the training datasets used to develop them. These datasets often reflect historical inequities, social biases, and systemic discrimination, which in turn produce biased outputs. For example, loan information derived from lending practices influenced by redlining or discriminatory approval rates systematically disadvantages certain demographic groups. When such biased data is fed into machine learning (ML) models, it perpetuates and even amplifies these inequities.

A key issue is label bias, which occurs when training data outcomes favor or penalize specific groups disproportionately. For instance, if historical data on loan approvals has predominantly benefited applicants from certain neighborhoods, the algorithm learns and reinforces this bias, discriminating against underserved communities. Similarly, sampling bias—when minority groups are underrepresented in datasets—limits the algorithm's applicability to diverse populations.

Identifying bias is a critical first step in developing fair AI. Tools such as fairness metrics, disparate impact ratios, and equalized odds can assess whether an algorithm's outputs are distributed equitably across different demographic groups. Additionally, explainable AI techniques can help uncover potential biases in the decision-making processes of algorithms, thereby enhancing their transparency (Agu et al., 2024).

To mitigate bias, active intervention is necessary. Techniques such as re-weighting training data, adversarial debiasing, and fairness-aware algorithms can reduce discriminatory outcomes. Furthermore, it is essential to regularly monitor and update datasets to ensure that models reflect current societal norms and behaviors. Focusing on bias detection and mitigation helps create algorithms that foster inclusivity and fairness, which are crucial for addressing systemic inequities in credit scoring systems.

B. The promotion of Inclusive Algorithm Designs

Fair algorithms are built upon a comprehensive approach to their design and development, integrating diverse perspectives and implementing robust accountability mechanisms. Diversity within development teams is crucial; teams composed of individuals with varying demographic, experiential, and professional backgrounds are better equipped to identify and address potential biases proactively. Recent research demonstrates that diverse teams outperform homogeneous ones in designing more inclusive technologies. Furthermore, including stakeholders in the development process enhances the inclusivity of algorithms. Stakeholders such as consumer advocacy groups, regulatory authorities, and representatives from underserved communities provide valuable insights into the needs and challenges faced by diverse populations. Without their contributions, algorithms may fail to align with principles of equity and social responsibility (Agbelusi et al., 2024).

Regular audits are also essential for ensuring information security and fairness. Algorithmic audits assess the equity, accuracy, and impact of models across different demographic groups, helping to identify unintended biases and prevent algorithms from unfairly disadvantaging certain populations. For example, auditing can reveal whether a credit scoring algorithm systematically assigns lower scores to minority users compared to majority users, prompting necessary corrections. Similarly, transparency plays a key role in fostering trust. Transparent documentation of algorithmic processes, data sources, and decision-making criteria enhances trust among users and regulators. Explainable AI tools, which break down complex models into understandable components, further contribute to transparency.

Inclusive algorithm design is not a one-time effort but a continuous process. Regular updates, feedback loops, and collaborative development frameworks ensure that algorithms evolve in response to changing societal conditions and emerging standards of fairness. By embedding inclusivity as a core design principle, financial institutions can create systems that promote equitable access to credit.

C. Importance of data sets in Credit Scoring Algorithms

The datasets used to train algorithms often fail to reflect the financial realities faced by many underrepresented groups, resulting in models that replicate and exacerbate existing financial disparities. Supplementing algorithm training with diverse datasets can help algorithms more accurately represent the experiences and behaviors of various populations, leading to more equitable outcomes. Alternative data sources, such as rental payment records, utility bill payments, and gig economy income, broaden the scope of what creditworthiness assessments can include, particularly for populations that are underrepresented in financial services and lack traditional job or credit histories (Edunjobi & Odejide, 2024).

Creating demographic diversity in datasets is also crucial. This includes ensuring that the data is representative of people across various spectrums of race, ethnicity, gender, and class. When some groups are underrepresented in the dataset, overfitting can occur, causing algorithms to favor the majority group data during training (Sadok et al., 2016). By training the algorithm on diverse data, it can learn to generalize more effectively, improving its accuracy and reliability in different scenarios. For example, a dataset that includes financial behaviors from both rural and urban populations enables the algorithm to account for various geographic contexts (Spiess & Blattner, 2023). Therefore, it is essential to leverage diverse datasets without compromising data privacy or ethical considerations.

While these factors are beneficial, institutions must ensure informed consent, anonymize sensitive data, and adhere to regulatory frameworks that protect individual rights while promoting inclusivity. Financial institutions can use diverse datasets to create multiple algorithms that accurately reflect the lived experiences of all users, thereby fostering equity and fairness in credit scoring systems and avoiding discrimination in machine learning based on user-specific features (Khanna, 2024).

6. Legal and Ethical Challenges for utilizing Artificial Intelligence in Credit Scoring system

A. The concern regarding breach of Data Privacy and Security

Ethical concerns arise when sensitive financial and non-traditional data are used in credit scoring. These models rely on vast datasets, which may include sensitive information such as rental histories, utility payments, and digital transaction records. While these data points may function effectively in contexts such as entertainment predictions, their collection and use must be safeguarded against unauthorized access, misuse, and breaches. Without comprehensive safeguards in place, sensitive data could be misused by third parties, sold, or shared for purposes beyond what users initially consented to. Such practices disproportionately affect marginalized groups, who may be less aware of their rights or lack the means to prevent misuse (Kozodoi et al., 2021).

To mitigate these risks, it is crucial to adopt robust privacy policies and secure data storage measures. Regulatory frameworks like the General Data Protection Regulation (GDPR) and the California Consumer Privacy Act (CCPA) set standards for safeguarding sensitive data (Khanna, 2024). These guidelines emphasize the need for institutions to obtain informed consent before using personal data and to anonymize sensitive information, such as medical records, before analysis and publication (Verma, 2024).

Moreover, best practices for ethical artificial intelligence advocate for limiting data collection to only what is necessary. Emerging techniques, such as differential privacy and federated learning, enable the development of accurate credit models while preserving individual privacy. These methods seek to strike a balance between the benefits of modern credit scoring and the implementation of strong data protection measures (Khanna, 2024).

By designing ethical AI systems that prioritize user privacy and security, financial institutions can address these concerns and build the necessary trust to protect all users.

B. Issues surrounding absence of Transparency and Accountability

The ethical implementation of AI-driven credit scoring systems is often questioned, as it requires transparency and accountability among the relevant stakeholders. Most machine learning (ML) models are opaque and can be considered "black-box" systems, making it difficult to understand how they arrive at their decisions. When these decisions negatively impact individuals, the lack of transparency raises significant ethical concerns. To address this issue, explainable AI (XAI) tools have been developed. These tools provide insight into how algorithms generate their outputs. For example, methods like Local Interpretable Model-Agnostic Explanations (LIME) and Shapley Additive Explanations (SHAP) offer explanations by breaking down complex models into understandable segments, thus fostering trust among users and stakeholders.

Equally important are accountability frameworks, which allow models to be trained to audit and assess the fairness and accuracy of their AI counterparts over time. These audits should include metrics to evaluate disparate impacts across different demographic groups, as well as compliance with legal and ethical standards. This accountability is further enhanced through transparency reports, which detail aspects such as data usage, model quality, and decision-making criteria (Goodfellow et al., 2016).

A crucial mechanism for ensuring accountability is stakeholder engagement. By involving consumer advocates, regulators, and impacted communities in the design and auditing of AI systems, a wider range of perspectives can be incorporated. Conducting ethical audits in a collaborative manner can help address biases and provide assurance that AI practices align with societal values.

C. The challenge of striking a balance between innovation and equity

AI and ML tools hold significant promise for expanding credit access and enhancing predictive capabilities. However, there are ethical trade-offs that must be carefully navigated. Since AI models are often trained to optimize for accuracy, any historical biases present in the training data can ultimately harm minority groups. For instance, if past lending practices were biased against certain demographic groups, the algorithm may learn to replicate those trends, thereby reinforcing systemic inequalities. Addressing these issues requires intentional actions, such as resampling data components, using fairness-aware algorithms, and auditing the results (Pessach & Shmueli, 2022).

Another ethical dilemma arises from the risk of marginalizing populations without access to digital infrastructure. Non-traditional data sources, such as mobile transactions and online activity, are frequently used in AI models but may exclude individuals who do not reside in urban areas or lack access to the internet (Ferrara, 2023). Financial institutions must focus on bridging these gaps to ensure equitable access to technological advancements for all populations.

Moreover, algorithmic decision-making is inherently value-laden and must be viewed within the broader societal context. The use of AI in determining creditworthiness raises important issues of autonomy and consent. Consumers may not fully understand how their data, particularly sensitive personal information, is being used. Institutions that develop these systems must ensure informed consent and provide transparency about the decision-making processes.

Despite these challenges, innovation and fairness can, and must, coexist. By embracing ethical AI practices that prioritize inclusivity, transparency, and accountability, we can ensure that technological advancements align with our highest societal values (Ferrara, 2023). For credit systems to be both innovative and socially responsible, the financial industry must work to eliminate biases, promote transparency, and create opportunities for equitable access.

7. The use AI in credit scoring: Bridging Past with Future

A. Effective implementation of AI in Credit Scoring

Several financial institutions have effectively utilized AI and ML tools to enhance inclusivity and expand access to credit. One notable example is Zest AI, a fintech company that uses ML algorithms incorporating non-traditional data to assess creditworthiness (Pessach & Shmueli, 2022). By integrating alternative data such as utility payments, rent histories, and educational attainment, Zest AI has enabled lenders to extend credit to underserved populations without increasing default rates. Research has shown that this "re-issuing" approach has significantly expanded credit access for low-income and minority groups, while maintaining financial sustainability.

Similarly, in Kenya, the mobile-based lending platform M-Shwari, created by the Commercial Bank of Africa and Safaricom, has made a significant impact on financial inclusion. By applying AI to analyze mobile money transactions, M-Shwari offers instant microloans, even in the absence of traditional credit histories. This initiative has positively impacted rural and impoverished populations, many of whom were previously unable to access formal lending institutions (Woo et al., 2022).

In India, Paytm has developed an AI-powered credit scoring system that utilizes e-commerce transaction histories and digital wallet usage data. By analyzing real-time purchasing behavior and spending patterns, this model allows Paytm to gradually disburse small loans to gig economy workers and small businesses. This intervention has been instrumental in closing the credit access gap for individuals not linked to the formal banking network (Rezai et al., 2022).

These case studies demonstrate the disruptive potential of AI in the credit scoring sector. By combining diverse datasets, utilizing real-time analytics, and prioritizing inclusivity, financial institutions can overcome traditional barriers to credit access and stimulate economic growth.

B. The limitations of AI-driven credit scoring

The case of gender bias found in the Apple Card's algorithm in 2019 taught an important lesson on the limitations of AI-driven credit scoring. On average, male applicants received significantly higher credit limits than women, despite women having better financial standing. A key takeaway from this incident is the importance of regularly auditing algorithms that operate as "black boxes" to understand their outputs and ensure they do not favor a particular demographic, such as gender. Similarly, the COMPAS algorithm, which is often compared to credit scoring in the criminal justice system, was found to be racially biased in a ProPublica investigation (Woo et al., 2022). This algorithm unfairly identified Black individuals as higher risk at rates far beyond what would be expected, reflecting the racial biases present in the historical data used to train the model. This example underscores the dangers of historical inequities embedded in training datasets and highlights the growing need for fairness-aware algorithms (Onebunne & Alade, 2024).

The lack of stakeholder engagement has also contributed to such failures. For example, some fintech startups implemented AI credit scoring models without consulting regulators or community groups. This lack of transparency and stakeholder involvement led to public mistrust and regulatory intervention, which ultimately stifled the adoption of these technologies (J. N. Chukwunweike, Adebayo, et al., 2024). These cases provide valuable lessons for deploying ethical and inclusive AI, emphasizing the importance of transparency, the inclusion of diverse stakeholders, algorithmic audits, and addressing biases in training data. Such failures serve as crucial reminders, particularly for clients in the financial services sector, to prioritize fairness and build confidence in AI systems.

C. The prospects of the use of AI in Credit Scoring

The future of AI in credit scoring must prioritize ethical considerations to maximize inclusion and minimize risks. First and foremost, the integration of diverse datasets is essential. Expanding the range of data sources—such as gig economy income, utility payments, and educational credentials—facilitates a more comprehensive assessment of creditworthiness. This approach is particularly beneficial for unbanked and underbanked populations, helping to reduce systematic exclusions (J. N. Chukwunweike, Adebayo, et al., 2024).

Second, explainability and transparency must be central to AI models. Consumers should have access to clear, understandable explanations regarding how credit decisions are made. To promote transparency, trust, and accountability, tools such as Local Interpretable Model-Agnostic Explanations (LIME) can be applied.

Furthermore, future applications should emphasize collaborative development. For responsible AI implementation, financial institutions must engage regulators, consumer advocacy groups, and affected communities to design AI systems that align with ethical and societal expectations. Involving stakeholders ensures that models address a variety of needs and help prevent unintended consequences (Landers & Behrend, 2022).

Finally, routine auditing is crucial. The fairness, accuracy, and impact of algorithms should be regularly audited across demographic groups. Such audits are vital for detecting and rectifying biases, ensuring that AI systems continue to operate fairly and effectively. These insights should be incorporated by financial institutions to harness the potential of AI for democratizing credit access, fostering financial inclusion, and supporting underserved populations (Pessach & Shmueli, 2022).

8. The implementation of essential measures for utilizing AI in Credit Scoring: Key Recommendations

A. The establishment of Transparent and Accountable governance structures for Ethical AI Deployment

The implementation of regulatory frameworks to govern AI-driven credit scoring is essential for maintaining transparency, fairness, and accountability. Such frameworks should address the ethical concerns arising from the use of data, algorithmic decision-making, and systemic biases. At the core of this regulation is algorithmic transparency, which requires credit scoring models to be explainable and interpretable . This transparency allows consumers and regulators to understand how decisions are made and to identify potential biases. Whether for regulatory or insurance purposes, regulators should mandate periodic audits of AI systems to assess their performance across demographic groups. These audits should include measures to evaluate key performance metrics, such as disparate impact ratios and fairness measures, to ensure that the model treats all populations equally (Kizilcec & Lee, 2020).

Regulators must also establish specific data privacy guidelines based on frameworks such as the General Data Protection Regulation (GDPR) and the California Consumer Privacy Act (CCPA) to protect sensitive information and prevent the misuse of personal data.

Another essential component is accountability mechanisms. Institutions implementing AI-driven credit systems should be required to publish transparency reports detailing the data sources, model performance, and decision-making processes used. This fosters consumer trust and ensures adherence to ethical standards (Rezai et al., 2022).

Finally, regulators should not shy away from managing risk, but rather should prioritize safeguarding fairness. Sandbox environments could allow financial institutions to trial AI systems under regulatory oversight. Such sandboxes promote experimentation with new technologies while ensuring fairness and accountability, which is crucial for the development process (J. N. Chukwunweike, Adebayo, et al., 2024). These reforms empower governments to be held accountable, striking a balance between economic growth and security for emerging economies.

B. The use of Alternative Data Points into Mainstream Credit Scoring Systems for fair credit analysis

Traditional metrics, such as credit histories and formal income records, often disadvantage individuals in low-income, informal economies with limited access to financial services. As a result, alternative data points—such as rental payments, utility bills, and gig economy earnings—can offer a more comprehensive understanding of financial reliability and help expand access to credit (Onebunne & Alade, 2024). For example, utility payment records can allow lenders to assess the payment behavior of individuals without conventional credit histories. Similarly, transaction activity in mobile money transfers and digital wallet usage can be used to quantify monetary flow in countries with underdeveloped banking infrastructures (Xu et al., 2022).

Other metrics have the potential to disrupt traditional modes of credit, making them more inclusive and representative of diverse economic realities. Given that AI-powered models can analyze vast amounts of unstructured data, they offer more accurate and dynamic assessments of creditworthiness. However, for this integration to be effective, standardization is essential to ensure that such measurements are comparable and reproducible across institutions (Raza et al., 2024) .

Moreover, governments and regulators can encourage the adoption of alternative metrics by leveraging policies and partnerships. This could include providing tax incentives or grants to encourage financial institutions to invest in AI tools and infrastructure to analyze a broad range of data. Public awareness campaigns can also educate underserved populations about the benefits of including alternative data in their credit profiles, thus increasing participation.

The adoption of nontraditional credit measures is not merely a technical advancement; it is a social imperative. By allowing credit systems to better reflect the realities of all populations, such measures help reduce systemic exclusions and foster pathways to economic mobility.

C. The significance of Collaboration between Stakeholders

Clear and detailed guidelines are essential for establishing inclusive practices in AI-driven credit scoring, involving collaboration between governments, financial institutions, and technology developers. This multi-stakeholder approach ensures that these systems can balance innovation with ethics, leveraging the complementary expertise and resources of each participant (Raza et al., 2023). Governments play a critical role in setting the regulatory agenda and enforcing standards of fairness and accountability. Policymakers can work closely with both financial institutions and technology firms to develop frameworks that encourage innovation while safeguarding equity (J. N. Chukwunweike, Adebayo, et al., 2024). Public-private partnerships and other collaborative initiatives can provide the necessary funding and infrastructure to create inclusive credit scoring models.

In this context, financial institutions are pivotal in bringing AI-based credit systems to fruition. By sharing anonymized data and operational insights, these institutions can help improve the performance of algorithms, addressing disparities and enhancing their accuracy. Collaborative efforts with non-governmental organizations (NGOs) and consumer advocacy groups also support inclusivity by incorporating the perspectives of underrepresented communities. Open-source projects and shared research initiatives are examples of collaborative strategies that can foster innovation while addressing common challenges.

Such partnerships ensure that AI-driven credit systems are not only innovative but also inclusive, transparent, and equitable. Ultimately, this collaboration provides a solid foundation for using technology to expand access to credit, reduce inequalities, and create opportunities for all.

Conclusion

The deployment of Artificial Intelligence (AI) and Machine Learning (ML) in credit scoring systems provides a beacon of hope for removing the systemic barriers to financial inclusivity. Conventional credit models have for decades relied on rigid and exclusionary criteria—like credit histories and formal employment records—that essentially barred large segments of the population which could not provide these details, especially in underserved communities. AI and ML can overcome these limitations by analyzing the diverse data sets and discovering the patterns that the traditional system cannot. Perhaps one of the most powerful features of AI-powered credit scoring is that it can analyze nontraditional metrics like digital transactions, rent payments, and utility bills. This alternative data allows financial institutions to better understand an individual and assess creditworthiness in a more inclusive manner, thereby improving the approval rate for the unbanked and underbanked population. The facility of mobile-based microloan platforms in developing markets offer a glimpse into how AI can hold the key to enabling economic mobility by connecting previously underserved segments with access to financial services. However, the application of AI in credit scoring also poses serious challenges. Algorithmic biases, which derive from historical inequities frozen in training data, can reinforce or even heighten systemic inequities. Without transparency, users and regulators will find it difficult to understand or trust decisions made by AI systems. The situation is complicated further by issues of privacy: the gathering and use of sensitive personal data raises ethical questions around consent and security.

Initiatives to combat these issues have underscored the need for fair algorithms, explainability, and stakeholder collaboration. By instituting inclusive design practices, establishing strong monitoring and auditing regimes, and collaboration between the regulators and advocacy organizations, institutions can design credit systems that align innovation with equity. Achieving this goal demands a cooperative effort among financial institutions, policy-makers and technology developers to enhance credit scoring in a way that reinforces an equitable and accessible financial ecosystem for everyone.

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