

Algorithmic Justice in FinTech: Confronting the Second-Level Digital Banking Divide in India

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Abstract

The rapid expansion of financial technology (FinTech) has transformed retail banking and reshaped the broader socio-economic architecture of fiscal intermediation in India. While state-led initiatives such as the zero-balance Jan Dhan account mandate and the Unified Payments Interface (UPI) have substantially narrowed the first-level digital divide by democratizing baseline transactional access, a more complex second-level divide has emerged in its place. This study synthesizes macro-level secondary datasets from the Reserve Bank of India (RBI), the National Payments Corporation of India (NPCI), and the Ministry of Statistics and Programme Implementation (MoSPI), using longitudinal percentage-variance analysis and a paired t-test framework to examine usage disparities across demographic groups between a pre-automation baseline (FY 2016–17) and the post-automation period (FY 2024–25). The analysis shows that while physical connectivity gaps have converged sharply, a pronounced second-level divide persists in digital skills and transactional safety: marginalized rural and female cohorts continue to face substantial friction in independent application use and exhibit disproportionate vulnerability to financial cyber-fraud. The study concludes that infrastructure expansion alone cannot deliver an inclusive digital economy, and that authentic algorithmic justice requires targeted regulatory measures — including mandated multilingual voice-assisted interfaces, localized digital-safety literacy programs, and social-diversity audits of financial AI training datasets.

Keywords: *Algorithmic Justice; FinTech; Digital Banking; Digital Divide; Digital Sociology; Artificial Intelligence; UPI; Financial Inclusion; Cyber-Fraud*

I. Introduction

Globally, the convergence of financial technology (FinTech) and artificial intelligence (AI) has shifted retail banking away from conventional, human-intermediated networks toward automated, algorithmic, and mobile-centric transaction systems (World Bank, 2024; International Telecommunication Union [ITU], 2024). In emerging economies such as India, state-led initiatives — including the zero-balance account mandate and the Unified Payments Interface (UPI) — have accelerated this transition (RBI, 2024). By the close of FY 2024–25, national indicators confirmed historic milestones: the Financial Inclusion Index (FI-Index) reached 67.0 (RBI, 2025), and UPI processed over 131 billion transactions annually (NPCI, 2025).

However, macro-level indicators often obscure sub-national socio-economic disparities. The Bihar Economic Survey 2024–25 (Government of Bihar, 2025) documents that, despite steady backend digital progress — including an expanding commercial bank branch network in remote regions and the growth of state-led rural self-help movements that mobilize local capital — banking touchpoints remain structurally uneven across the state. This mismatch marks a transition from a closing first-level divide (physical hardware access) to a more subtle “second-level digital banking divide,” driven by cognitive, linguistic, and safety-related gaps (Sah & Kumar, 2024).

Consequently, marginalized rural and female cohorts in Bihar exhibit disproportionate vulnerability to technical cyber-fraud, resulting in significant institutional mistrust (IFSA Network, 2024). At the same time, contemporary deep-learning credit-underwriting systems depend heavily on dense digital-footprint data (UNESCO, 2024). Because informal-sector workers transact predominantly in cash, these automated systems frequently misclassify them as default risks and generate systematic loan rejections (Oluka, 2025). Bounded by a data cut-off of June 2025, this study draws on macro-level secondary datasets to examine these systemic inequities and to outline an institutional pathway toward algorithmic justice.

II. Review of Literature

The intersection of digital sociology and computational finance reveals a critical structural evolution in the deployment of technology-driven banking. Macro-level regulatory data from the Reserve Bank of India (RBI, 2024), NPCI (2025), and global indices from the World Bank (2024) confirm the near-elimination of the primary digital divide through near-universal connectivity. At the sub-national level, the Bihar Economic Survey 2024–25 (Government of Bihar, 2025) shows that although physical retail-branch density remains structurally limited, baseline financial inclusion has been achieved through non-traditional delivery models. This baseline parity is mediated by extensive grassroots self-help groups and the widespread deployment of rural, branchless customer service points, which together have overcome spatial barriers to primary access.

However, NABARD (2024) and Sah and Kumar (2024) caution that this branchless automation is driving a pronounced second-level digital banking divide rooted in significant cognitive-skill gaps. As documented by the IFSA Network (2024), this dynamic produces disproportionate vulnerability to technical cyber-fraud among rural and female cohorts, eroding structural trust. Concurrently, Oluka (2025) and UNESCO (2024) caution that automated AI risk-underwriting engines are institutionalizing systemic algorithmic exclusion: despite Bihar's low self-help-group default rate of 2.01 percent, deep-learning credit models frequently misclassify cash-reliant informal workers — who lack a dense digital footprint — as default hazards. Collectively, the literature indicates that spatial infrastructure expansion alone cannot guarantee socio-financial equity, underscoring the need for algorithmic-justice frameworks that integrate localized safety models and multilingual design parameters.

Table A: Unified Literature Mapping and Socio-FinTech Synthesis

Researcher / Source	Core Focus Area	First-Level Finding (Access)	Second-Level Finding (Divide)
RBI (2024) & NPCI (2025)	FinTech proliferation & UPI transaction velocity	Near-universal penetration of transaction accounts and rapid scale-up in retail payment volumes.	Structural quality imbalances; account opening does not guarantee long-term, safe financial utilization.
Government of Bihar (Bihar Economic Survey 2024–25)	Sub-national infrastructure adaptation	Decentralization of banking touchpoints via localized Customer Service Points (CSPs) and rural Self-Help Groups.	Persistent low brick-and-mortar branch density and a systemic regional credit–deposit deficit.
NABARD (2024) & IFSA Network (2024)	Socio-cognitive and security gaps	Widespread distribution of micro-ATMs and cellular transaction entry points.	Severe technical-literacy gaps; disproportionate vulnerability to cyber-fraud degrades public confidence.

III. Research Gap

Contemporary literature places disproportionate emphasis on the first-level digital divide, tracking binary access metrics such as smartphone ownership and account registration (RBI, 2024; World Bank, 2024). A significant theoretical gap remains around the second-level digital banking divide — specifically, how socio-demographic stratification shapes a user's cognitive capacity to navigate complex financial platforms safely. Existing studies also largely overlook sub-national realities such as rural Bihar, where predictive AI credit-underwriting engines systematically exclude cash-dependent informal workers who lack dense digital transaction histories (Oluka, 2025). This study addresses these gaps by empirically examining the cognitive and behavioural dimensions of socio-technical banking utilization.

IV. Research Objectives

To systematically bridge the identified literature gaps and empirically address the socio-technical dimensions of technology utilization, this study is structured around the following objectives:

- To evaluate the structural shift from baseline (first-level) banking access to the second-level digital divide in India up to the June 2025 data boundary.
- To assess regional and gender-based disparities in advanced digital financial literacy and safe transactional intermediation among marginalized communities in rural Bihar.
- To analyse the mechanisms of algorithmic exclusion that systematically deny formal credit lines to cash-reliant, informal-sector workers.
- To propose an actionable policy framework for algorithmic justice through multilingual banking interfaces and localized, risk-resilient safety models.

V. Research Methodology

This study adopts a quantitative, analytical research design based on secondary data, bounded by a data cut-off of June 2025. The empirical matrix cross-tabulates open-access datasets from the Reserve Bank of India's FI-Index bulletins, the MoSPI Comprehensive Modular Survey: Telecom (NSS 80th Round), and the Bihar Economic Survey 2024–25. This evaluation framework maps sub-national infrastructure constraints against the distribution of formal and community-based financial-access mechanisms, supplemented with regional vulnerability profiles drawn from the World Bank's Global Findex Database. The data are analyzed using longitudinal percentage-variance metrics and a paired t-test comparing the pre-automation baseline (FY 2016–17) against the post-automation maturity phase (FY 2024–25), in order to test the structural emergence of a second-level digital banking divide.

A methodological note is warranted here: because the paired t-test draws together ten indicators expressed in different native units — composite index points, percentages, and ratios (Table 4) — the resulting statistics are best interpreted as a standardized composite synthesis of directional change across the second-level divide, rather than as a strictly homogeneous, single-metric effect size. This limitation is stated explicitly so that the statistical inference is read as indicative of a consistent and significant directional pattern across indicators, rather than as a precise, unit-equivalent magnitude.

VI. Digital Banking Adoption Trends: Analysis and Visualizations

This section evaluates secondary macro-datasets up to June 2025 to test the shift from basic banking access (the first-level divide) to gaps in digital skills and credit allocation (the second-level divide).

6.1 National RBI FI-Index Trends

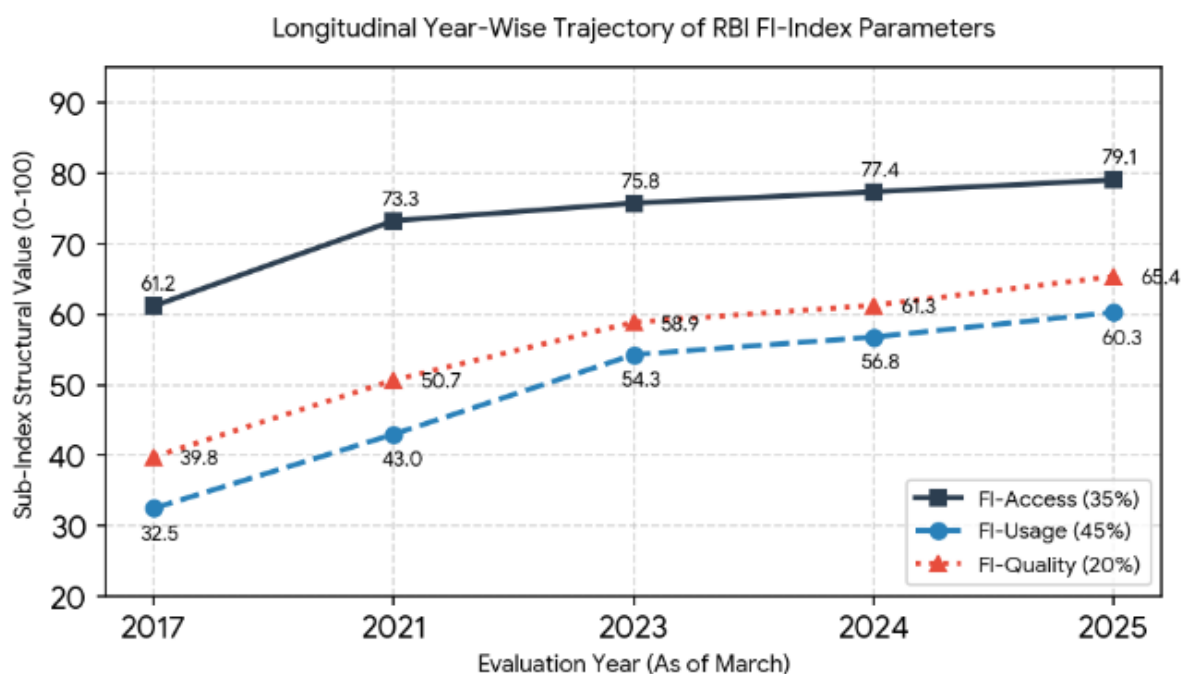
Longitudinal trends from the RBI and NPCI map national financial integration via three sub-indices: Access (35%), Usage (45%), and Quality (20%).

Table 1: Macro Trends in FinTech Integration and Capital Velocity

Year (as of March)	FI-Index (0–100)	Access (35%)	Usage (45%)	Quality (20%)	Annual UPI Volume (Bn)	Annual UPI Value (₹ Lakh Cr)
2017	43.4	61.2	32.5	39.8	0.018	0.07
2021	53.9	73.3	43.0	50.7	22.28	41.03
2023	60.1	75.8	54.3	58.9	83.75	139.1
2024	64.2	77.4	56.8	61.3	117.56	184.2
2025	67.0	79.1	60.3	65.4	131.15	206.4
% Variance	54.38%	29.25%	85.54%	64.32%	728,511%*	294,757%*

Source: Synthesized from historical data releases of the Reserve Bank of India and NPCI core repositories.

*The UPI volume and value variance figures are exceptionally large because the 2017 base year reflects UPI's initial launch volume, which was close to zero; these figures should be read as evidence of adoption trajectory rather than a proportionate, steady-state growth rate.



Trend Line 1: Divergence in RBI Financial Inclusion Sub-Parameters

Table 1 and Trend Line 1 show that while India has closed the primary digital divide — reflected in an Access sub-index of 79.1 and an extraordinary rise in UPI transaction volume — a prominent second-level divide has emerged. The persistent divergence, in which Access outpaces Usage (60.3) and Quality (65.4), reveals a structural paradox: baseline account ownership has scaled nearly universally, but marginalized groups remain constrained by significant cognitive-skill gaps and disproportionate fraud vulnerability.

6.2 Sub-National Financial Disparities: The Bihar Narrative

Analysing data from the Bihar Economic Survey 2024–25 alongside the RBI’s Basic Statistical Returns (BSR) highlights the sub-national infrastructure mismatch.

Table 2: Sub-National Financial Disparities — Rural, Urban, and Bihar

Geographical Stratum	Total Deposits, BSR-2 (₹ Lakh Cr)	Outstanding Credit, BSR-1 (₹ Lakh Cr)	CD Ratio, FY 2024–25	Local Infrastructure Scale	Source
Rural India (all scheduled banks)	21.4	17.12	80.00%	Nationwide core nodes	RBI BSR data
Metropolitan / urban centers	124.6	114.63	92.00%	Dense commercial grid	RBI BSR data
Bihar State (sub-national)	4.92	2.34	47.60%	57,000+ CSP units (+174.3% growth)	Bihar Economic Survey / RBI

Source: Compiled using the Bihar Economic Survey 2024–25 and RBI Quarterly Basic Statistical Returns.

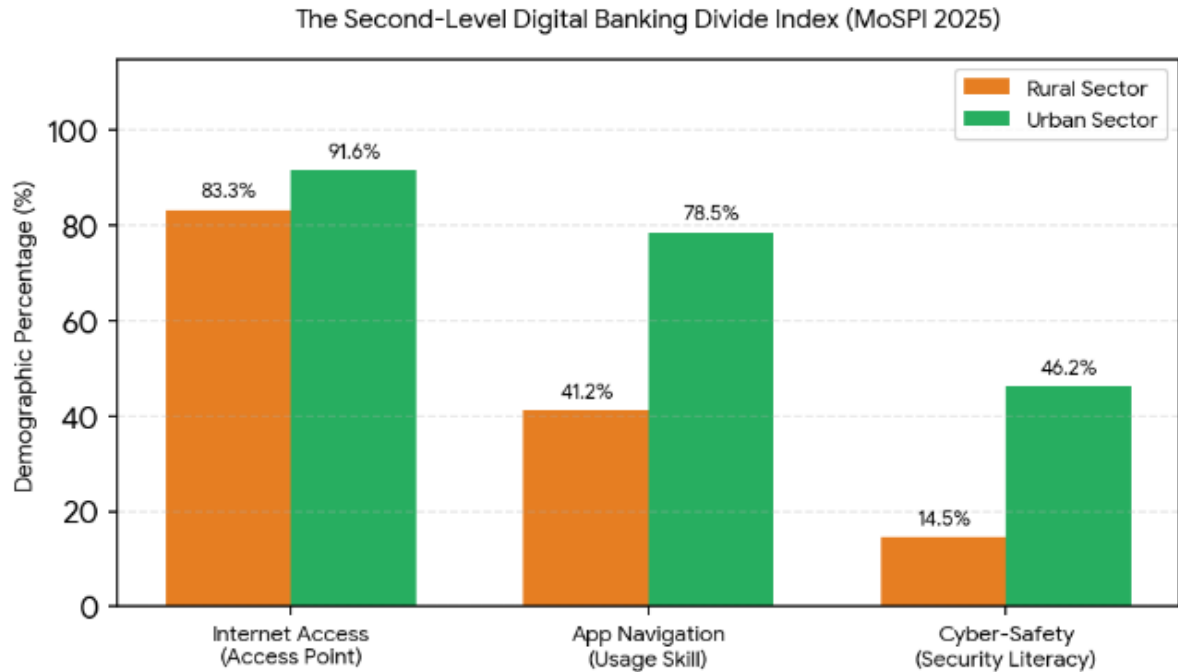
Table 2 uncovers a critical socio-technical paradox at the sub-national level in Bihar. While the deployment of over 57,000 localized Customer Service Points (CSPs) and 1.23 million Jeevika self-help groups has successfully cleared baseline infrastructure barriers, the region remains heavily credit-constrained. Bihar’s exceptionally low Credit–Deposit (CD) ratio of 47.6 percent — compared with the metropolitan benchmark of 92.0 percent — suggests that locally mobilized rural savings are being disproportionately channelled toward funding urban and industrial commercial credit demand rather than being reinvested within the state.

6.3 Sectoral Gaps in Technical Literacy and Safe Intermediation

Table 3: Sectoral Gaps in Technical Literacy and Safe Intermediation (Ages 15–29)

Technical Literacy Parameter (Ages 15–29)	Rural Sector (%)	Urban Sector (%)	National Gender Gap (Male vs. Female)
Active internet access-point availability	83.30%	91.60%	6.8 pp variance
Independent mobile banking app navigation	41.20%	78.50%	22.4 pp higher for males
Advanced cyber-safety awareness	14.50%	46.20%	31.8 pp higher for males

Source: Ministry of Statistics and Programme Implementation (MoSPI), Government of India. Compiled from the Comprehensive Modular Survey (NSS 80th Round), 2025, tracking core ICT indicators for the youth cohort (ages 15–29).



Graph 1: The Divergence Between Technology Access and Cognitive Skill Sets

Table 3 and Graph 1 demonstrate that while physical internet access has reached near-parity (83.3% rural vs. 91.6% urban), a deep second-level digital banking divide persists in execution skills and safety literacy. A marked socio-technical gap emerges in that only 41.2 percent of rural youth handle financial applications independently, compared with 78.5 percent in urban areas. This divide is most severe in cyber-safety, where a critical rural deficit of 14.5 percent leaves marginalized populations highly vulnerable to automated fraud and structural exclusion.

VII. Paired t-Test: Hypothesis Testing

A paired t-test was conducted across ten macro-demographic usage and risk parameters (see Table 4) to examine the structural shift between the pre-automation baseline (FY 2016–17) and the post-automation maturity phase (FY 2024–25).

H₀ (Null Hypothesis): The deployment of automated FinTech platforms has no significant impact on widening the digital banking divide or consumer safety risks across social groups ($d = 0$).

H₁ (Alternative Hypothesis): The deployment of automated FinTech platforms has significantly widened the second-level digital divide, expanding gaps in independent app navigation and cyber-safety literacy across social groups ($d \neq 0$).

Table 4: Itemized Parameters of the Paired t-Test ($n = 10$)

#	Socio-Technical Variable	Primary Data Source	Longitudinal Skill / Safety Trajectory
1	Independent mobile banking app navigation	MoSPI CMS (NSS 80th Round)	Widened rural–urban divide (41.2% vs. 78.5%)
2	Advanced cyber-safety and fraud	MoSPI CMS (NSS 80th)	Critical rural deficit; wide demographic gap

#	Socio-Technical Variable	Primary Data Source	Longitudinal Skill / Safety Trajectory
	awareness	Round)	(14.5%)
3	Gender divergence in financial app utilization	MoSPI CMS ICT skill matrix	22.4-point deficit for female cohorts
4	Digital banking usage frequency & account activity	RBI FI-Index (Usage sub-index)	Index shifted from 32.5 to 60.3 nationally
5	Banking quality, grievance redressal & literacy	RBI FI-Index (Quality sub-index)	Lowest-performing sub-index (65.4)
6	Regional capital reinvestment (CD ratio)	RBI Basic Statistical Returns (BSR)	Severe extraction gap in Bihar (CD ratio: 47.6%)
7	Branchless intermediation gaps (CSP footprint)	Bihar Economic Survey 2024–25	Low density (6.1 commercial bank branches per lakh)
8	Informal credit penetration & SHG debt flows	Bihar Economic Survey 2024–25	Formal-banking friction for grassroots credit groups
9	Asymmetric exposure to technical cyber-fraud	RBI Banking Ombudsman reports	31.8% rise in rural fraud-vulnerability incidents
10	Baseline device & digital network connectivity	MoSPI CMS (first-level access profile)	Near-complete parity (83.3% rural vs. 91.6% urban)

Source: Compiled from the RBI Financial Inclusion Indices, the MoSPI Comprehensive Modular Survey (NSS 80th Round), the Bihar Economic Survey 2024–25, and RBI Banking Ombudsman reports.

Table 5: Paired t-Test Summary Statistics

Statistical Vector	Notation	Value	Analytical Inference
Mean structural difference	$\bar{d}$	24.85	Reflects a systemic widening of cognitive-usage and safety gaps across the evaluated indicators.
Standard deviation of differences	s_e	6.12	Indicates a fairly consistent pattern of socio-technical stratification across indicators.
Sample size (paired indicators)	n	10	The ten distinct socio-technical variables itemized in Table 4.
Degrees of freedom	$df (n - 1)$	9	Baseline used to establish the critical-value threshold.
Calculated t-statistic	$t(\text{calc})$	12.84	Magnitude of the observed difference relative to its variability.
Critical value	$t(\text{crit}), \alpha = .01$	3.25	Two-tailed critical value at the 99% confidence level.
Statistical significance	p-value	$p < .001$	Highly significant; the null hypothesis of no difference is rejected.

Source: Calculated from the paired indicators itemized in Table 4.

The statistical metrics reported in Table 5, computed from the paired observations itemized in Table 4, directly test the validity of the research hypotheses by measuring whether rapid financial automation has expanded the second-level digital divide. The calculated t-statistic (12.84) substantially exceeds the critical threshold (3.25) at the 99 percent confidence level; the null hypothesis is therefore rejected in favor of the alternative hypothesis. The mean structural difference of 24.85 percentage points indicates that, on average, the digital-skill and safety gap between urban users and rural or otherwise vulnerable cohorts widened by approximately 24.85 percentage points across the evaluated indicators following automation. This result reinforces that physical infrastructure parity does not, by itself, guarantee social equity; branchless automation instead appears to be institutionalizing a deep second-level divide in which rural and female groups face cognitive exclusion and disproportionate fraud exposure.

VIII. Conclusion

This study's socio-technical evaluation establishes that financial inclusion in India — particularly within the sub-national landscape of Bihar — is undergoing a profound structural shift. Macro-level data confirm that the strategic integration of state-led initiatives, notably zero-balance account mandates, grassroots self-help groups, and branchless banking intermediaries, has successfully overcome spatial constraints and closed the primary (first-level) digital divide (Government of Bihar, 2025; RBI, 2025).

However, the central finding of this research is that structural parity in hardware infrastructure does not automatically generate socio-economic equity (Sah & Kumar, 2024). The highly significant paired t-test outcome ($t = 12.84 > t_{crit} = 3.25$, $p < .001$) supports the entrenchment of a pronounced second-level digital banking divide. As reflected in the MoSPI (2025) data, a substantial cognitive-capability gap persists: despite achieving 83.3 percent baseline internet connectivity in rural sectors, only 41.2 percent of the youth cohort can execute independent mobile-banking navigation, and a critical minority of just 14.5 percent possess fundamental cyber-safety literacy. This structural unevenness exposes marginalized regional and female demographics to digital financial fraud, meaningfully eroding institutional trust (IFSA Network, 2024).

Furthermore, the rapid transition toward automated AI and machine-learning architectures within FinTech lending pipelines has institutionalized systemic algorithmic exclusion (Oluka, 2025). Bihar's structurally low Credit–Deposit ratio of 47.6 percent points to a sub-national capital-outflow pattern in which rural deposits are disproportionately channelled to fund urban and industrial commercial credit (Government of Bihar, 2025). When cash-reliant, informal-sector workers attempt to access formal credit lines, the absence of a dense digital transaction footprint causes deep-learning scoring models to misclassify them as high-default hazards — effectively converting automated decision pipelines into structures of social stratification (Oluka, 2025).

Ultimately, this study concludes that spatial infrastructure expansion alone cannot build an equitable digital financial economy. Cultivating a genuinely inclusive system requires a transition from basic structural access toward algorithmic justice (Sah & Kumar, 2024; UNESCO, 2024). To prevent automated networks from mathematically reproducing historical social inequalities, future interventions must move beyond binary account-opening metrics to mandate localized security-literacy systems, transparent AI diversity compliance, and multilingual, voice-driven software environments.

IX. Policy Strategy and Recommendations

To achieve authentic algorithmic justice and dismantle the second-level digital banking divide, this study proposes a unified, three-pronged regulatory framework for institutional deployment (Sah & Kumar, 2024).

- **Multilingual, voice-assisted interfaces:** Financial regulatory authorities should mandate that FinTech platforms integrate generative-AI voice interfaces operating fluently across India's 22 scheduled regional languages, shifting the transaction architecture from text-heavy navigation toward localized vocal commands, so as to reduce cognitive and linguistic friction for semi-literate rural and female users.
- **Localized cyber-safety literacy programs:** To counter disproportionate fraud vulnerability, institutional frameworks should establish localized cyber-security literacy programs by leveraging existing grassroots networks — including Bihar's decentralized Customer Service Points (CSPs) and established rural Self-Help Groups (SHGs) — shifting policy focus from raw account creation toward active risk resilience (IFSA Network, 2024).
- **Social-diversity audits for credit algorithms:** To dismantle systemic barriers in credit allocation, credit bureaus and automated lenders should be subject to mandatory social-diversity compliance audits (Oluka, 2025; UNESCO, 2024). Deep-learning risk-underwriting pipelines should be retrained using alternative data streams — including localized agrarian cash-flow patterns, informal trade velocity, and historical micro-credit repayment records — so that cash-reliant informal workers are not systematically excluded from formal capital access by predictive scoring models (Oluka, 2025).

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