

# Towards Ethical Financial Innovation and Inclusion: Implications of AI Targeting on Vulnerable Individuals Seeking Pay Day Loans.

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# Introduction

- Artificial intelligence (AI) can be considered a buzzword which everyone now finds relevant to their business. While it can be regarded as a disruptive technology, its potential to add value in Financial Services firms is enormous.
- Fintech is competing with traditional financial methods in the delivery of financial services, using technology and innovation to improve activities in the financial sector.
- Fintech generates a comprehensive data view of customers which AI can be used to refine and better shape the customer experience and service offering.

**FinTech is bringing a long-term societal transformational change.**

**Likewise, AI, opening more opportunities for the financial services industry.**



The United Nations expects digital [financial inclusion to be a priority](#) as it is positioned prominently as an enabler of other developmental goals in the 2030 Sustainable Development Goals.

It is anticipated that FinTech will extend the reach of financial markets, notably to the excluded and underbanked at a reasonable cost, and on a sustainable basis.

Chief among these unbanked groups are vulnerable individuals who rely on payday loans to meet their financial obligations.

Often, these are members of social minority groups, those living in disenfranchised neighbourhoods and neglected by traditional banks.

Payday loans are small, single-payment loans that are repayable on the borrower's next payday. This is considered a form of **High-cost, Short-term credit (HCSTC)**

While recognising the opportunities AI is bringing into FinTech and how advancements in technology have contributed to the growth of the payday-loan industry, this presentation highlights

**Three critical implications.**

# 1. Access to Information

- Website is used to acquire information
- Some payday-loan sites position themselves as direct lenders, assuring customers that they will process their application more quickly and that decisions will be made faster.
- Also, some brokers also front as direct lenders, suggesting that they offer loans themselves when, in fact, they only collect information from borrowers and share it with the actual lenders.
- With the vast amount of data being generated and provided by the consumers and significant development of AI for data processing and modelling.
- There are no indications that it would not be shared with other third parties without the knowledge of the individual.

## 2. Retargeting the Borrowers

- Personalised and automated content creation based on the data collected (and shared) through the website.
- The AI algorithm can be used to target individuals with Adverts, encouraging them to borrow more and, continually be in debt.
- Likewise, other lenders may contact them with marketing communications, luring them to apply for new loans since they have their details.
- Payday loans is typically recurring, 75% of customers take out more than one loan in a year. More than 80% of all new loans were made to customers who had previously borrowed from the lender.



# 3. The Human Connection

- These applications are processed with AI.
- Lenders even take pride in their technological advancement. They also acknowledge that technology is responsible for offering unique service such as personalised quotes - auto decisioning.
- The human understanding and empathy while processing the payday loan application are missing.
- Unlike when consumers go to the shop to get their loans, the Staff can be helpful, provide information and signpost for help, but now with things almost automated with AI, the human touch and consciousness is missing.

# Moving Forward...

- AI is expected to bridge the gap between the brands, the customers and data in order to transform the customer experience.
- No doubt, consumers will continually provide more data for AI to learn from. However, the ethical handling of these data is critical.
- It is recognised that AI in Financial services can be used for Customer Profitability Optimization and credit Approval Process Optimization, however, there is a limitation with regards to the human empathy in understanding the underlying need for the fast cash which the Machine might not be able to determine.
- This presents implications for policymakers, financial services providers and developers to provide a sustainable and ethical financial product.

# Conclusion

- The ethical handling of customers' data
- Sustainable and ethical financial products
- Efforts towards improving financial inclusion
- Financial Literacy Education
- Human touch in FinTech and AI development

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