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EDITORIAL ANALYSIS

Inclusive Lending: Alternative Data Can Widen Credit, If Judgement Is Not Automated Away

BUSINESS STANDARD

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Business Standard 27 August 2026 GS3

INTERVIEW ANGLE

"A model denies someone a loan on the basis of data they never knowingly provided, for reasons nobody can articulate. Which part of that should the law fix first?"

Source: Original editorial ↗ Business Standard

Every fact web-verified against primary sources

THE LIFT LINE

A credit score requires a credit history, and a credit history requires credit. For the unbanked, the test and the qualification are the same thing.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

Financial inclusion and AI governance are examined separately and rarely together. This editorial sits exactly at their intersection, which makes it unusually efficient preparation.

GS Paper 3: Inclusive growth; banking and financial sector; awareness in the field of IT and emerging technology.

GS Paper 2: Government policies and interventions; issues of transparency and accountability.

CONCEPT	MEANING	WHY IT IS TESTABLE
Thin file	A borrower with too little credit history to generate a reliable score	The population alternative data is meant to reach
Alternative data	Non-credit signals such as utility payments, rent, transaction and supply-chain records	The mechanism of inclusion
Proxy discrimination	A model using a neutral variable that correlates with a protected characteristic	Why bias can occur without any protected variable in the model

BACKGROUND AND CONTEXT

The Indian Credit Infrastructure

ELEMENT	DETAIL
Credit information companies	Regulated under the **Credit Information Companies (Regulation) Act, 2005**
Account Aggregator (AA) framework	RBI-regulated consent architecture for sharing financial data
Open Credit Enablement Network (OCEN)	Protocol layer connecting lenders, marketplaces and borrowers
India Stack	Aadhaar e-KYC, UPI, DigiLocker and the AA layer together
Digital Personal Data Protection Act, 2023	The governing data-protection statute

The **Account Aggregator** framework matters specifically here, because it makes consented, purpose-limited, revocable data sharing technically possible, which is the precondition for using alternative data lawfully rather than by scraping.

Why Conventional Scoring Excludes

A bureau score is constructed from **past repayment behaviour on formal credit**. Someone who has never taken formal credit generates **no score**, and a lender reading “no score” cannot distinguish between a careful person who never needed a loan and a person who could not obtain one. Absence of information is priced as risk.

THE ANALYSIS

1. The circularity is the core injustice, and it is fixable. The exclusion is not a judgement that the borrower is risky; it is an absence of evidence being treated as evidence of absence. Alternative data supplies evidence that already exists. A household paying electricity bills on time for eight years has demonstrated payment discipline; the information was simply never in a form a lender could read.

2. This is inclusion without lowering standards, which is what makes it attractive. Earlier approaches to expanding credit relied on **mandated targets**, such as priority sector lending, or on **group liability**, as in microfinance. Both work but carry costs, in directed lending distortions and in coercive collection respectively. Alternative data expands the applicant pool by improving information rather than by relaxing the standard, which is a categorically better mechanism.

3. The extension problem is the real technical risk. A model learns the regularities of its training population. Applied to a materially different segment, it carries forward correlations that were incidental to the original data. This is why the editorial places the safeguard at **the point of extension to a new customer group**, not at design. A model validated once and then rolled outward is a model whose assumptions are silently travelling.

4. Proxy discrimination is the mechanism to name. A model need not use caste, religion or gender to discriminate on them. **Postal code, handset type, transaction merchant mix and language of interface** can each correlate with a protected characteristic strongly enough to reproduce its effect. Removing protected variables from a model does not remove protected outcomes, which is why testing must examine **outcomes by group**, not inputs.

5. The counter-argument about human review is serious. At small-ticket volumes, meaningful human review of every adverse decision is not economically feasible, and a formal right to review is likelier to be exercised by the articulate than by those actually harmed. This is a genuine objection to a uniform right, and the answer is **proportionality**: tie review to materiality, and pair it with a duty to give **actionable reasons**, since a reason the applicant can act on is worth more than a review they will never request.

DATA AND INSTITUTIONS VAULT

PRELIMS-GRADE FACTS:

Credit Information Companies (Regulation) Act, 2005 governs credit bureaus in India.

Account Aggregator framework is RBI-regulated and provides consented, revocable, purpose-limited financial data sharing.

OCEN, the Open Credit Enablement Network, is the protocol layer for digital lending.

DPDP Act, 2023 governs digital personal data; the Data Protection Board of India adjudicates.

India Stack comprises Aadhaar e-KYC, UPI, DigiLocker and the Account Aggregator layer.

Priority Sector Lending and microfinance group liability are the earlier instruments of credit expansion.

> *An* **Account Aggregator does not store or see the data***; it is a consent-and-transfer intermediary between the financial information provider and the financial information user. Describing it as a data repository is wrong. Also distinguish* **thin-file** *borrowers, who have some history, from* **new-to-credit** *borrowers, who have none.*

THE DEBATE

FOR (alternative data and AI expand inclusion): Conventional scoring is circular and excludes the creditworthy alongside the risky. Alternative data reads financial behaviour that already exists. This expands access by improving information rather than by relaxing standards, which is better than directed lending or group liability.

AGAINST (procedural rights will not protect the harmed): Human review at small-ticket volumes is economically infeasible and reintroduces the discretion and delay automation removed. A formal right of review is exercised by the articulate, not by those actually excluded. The remedy for bad models is better models and better data.

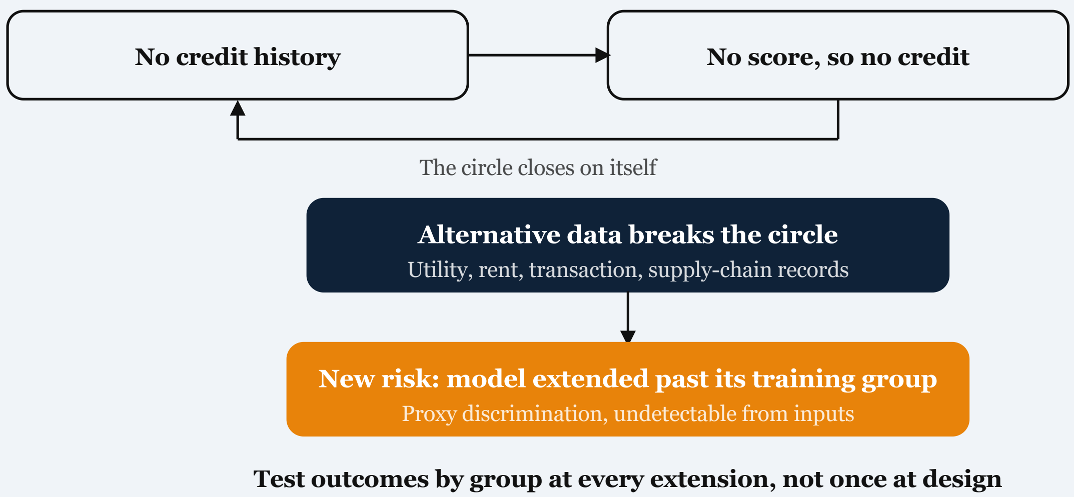
Balanced verdict: The objection is right that a **uniform** right of review would be unworkable and regressive in practice, and wrong that better models alone suffice, because proxy discrimination is not detectable from inside a model without outcome testing. The proportionate framework therefore has four parts: **explicit, revocable, purpose-limited consent** for alternative data; **mandatory bias and reliability testing at every extension to a new customer segment**, reported to the regulator; a right to **human review reserved for materially adverse decisions above a threshold**; and a duty to state the **principal reasons in terms the applicant can act on**. The last is the most valuable and the least discussed, because it converts an opaque refusal into information the borrower can use.

HOW TO THINK ABOUT THIS

When an automated system replaces human judgement, ask what the human was actually doing that the model does not. Usually the answer is not accuracy, since models often score better, but **handling the case the rules did not anticipate**.

A model is excellent within its training distribution and unreliable outside it, and it cannot tell you which situation it is in. The human's function in an automated pipeline is therefore not to re-do the decision but to catch the case the model should not have been asked to decide at all. Designing for that specific function, rather than for blanket review, is what makes human oversight affordable and useful. The same reasoning applies to automated systems in welfare targeting, medical triage and content moderation.

DIAGRAM-IN-WORDS



The top loop is the exclusion mechanism. The dark box breaks it, and the orange box is the new problem it creates, which is why the safeguard belongs at extension rather than at design.

TAKEAWAY BOX

A credit score requires a credit history, and a credit history requires credit. For the unbanked, the test and the qualification are the same thing.

Credit Information Companies (Regulation) Act, 2005; the RBI-regulated Account Aggregator framework as a consent intermediary that does not store data; OCEN as the digital lending protocol layer; India Stack comprising Aadhaar e-KYC, UPI, DigiLocker and AA; DPDP Act 2023 and the Data Protection Board of India; priority sector lending and microfinance group liability as earlier inclusion instruments.

If a model denies credit for reasons no one can articulate, has the applicant been treated unfairly even where the decision was statistically correct?

Connects to past UPSC Mains questions on financial inclusion, on digital public infrastructure, and on the ethical governance of artificial intelligence.

"Automated credit assessment expands access and relocates exclusion rather than removing it." Critically examine.

Source: Inclusive Lending: Alternative Data Can Widen Credit, If Judgement Is Not Automated Away — Ujiyari.com | Free UPSC & State PCS Editorial Analysis

KEY ARGUMENTS AT A GLANCE

Business Standard argues that alternative data and artificial intelligence can credibly assess the repayment capacity of new-to-credit and thin-file borrowers, extending formal lending well beyond the reach of conventional credit scores, but insists that the technology must complement rather than replace human judgement and governance, through consent-based data use, routine bias and reliability testing as models extend to new customer groups, and a right to meaningful human review of materially adverse decisions.

✓ SUPPORTING

- Conventional credit scoring is circular for the unbanked, because a score requires a credit history and a credit history requires prior credit, which excludes precisely those who have never borrowed formally regardless of their actual repayment capacity.
- Alternative data such as utility payments, rental history, transaction patterns and supply-chain records reflects real financial behaviour that exists independently of whether a person has ever taken a loan, so it can break the circularity without lowering underwriting standards.
- A model trained on the repayment behaviour of the already-banked encodes the characteristics of that population, so extending it to a materially different customer group without revalidation transfers assumptions that may not hold, which is why testing at the point of extension is the operative safeguard rather than testing once at the point of design.

⚠ COUNTER

The counter-view is that requiring human review of adverse automated decisions reintroduces exactly the cost, delay and discretionary bias that automated underwriting was designed to remove, and that at the volumes involved in small-ticket lending, meaningful human review is not economically feasible. On this reading, the answer to model bias is better models and better data rather than a procedural right that will in practice be exercised by the articulate and well-resourced rather than by those actually harmed.

→ WAY FORWARD

The governance framework should be proportionate to consequence rather than uniform: require explicit, revocable, purpose-limited consent for alternative data; mandate periodic bias

> and reliability testing whenever a model is extended to a new customer segment, with results reported to the regulator; reserve the right to human review for materially adverse decisions above a defined threshold; and require lenders to state the principal reasons for an adverse decision in terms the applicant can act on.

✍ MAINS ANSWER FRAMEWORK

QUESTION

Alternative data and AI-based credit scoring promise to extend formal lending to new-to-credit borrowers. Examine the inclusion gains and the exclusion risks, and suggest a governance framework. (250 words)

INTRODUCTION

Formal credit in India has expanded enormously in reach without fully solving the problem of the borrower who has never borrowed. Business Standard argues that alternative data and machine learning can close that gap, provided the governance around them is built at the same time rather than afterwards.

BODY

The exclusion mechanism is circular. Conventional credit assessment relies on a bureau score built from repayment history, so a person with no formal borrowing record has no score, and the absence of a score is read as risk rather than as absence of information.

The result is that a creditworthy first-time borrower and a genuinely risky one are treated identically, which is both unjust and commercially wasteful. Alternative data breaks this circle by using signals that exist regardless of borrowing history: utility and rent payments, transaction and cash-flow patterns, telecom records, and for enterprises, supply-chain and invoice data.

Account Aggregator infrastructure under the RBI provides the consent architecture through which such data can be shared, and the Open Credit Enablement Network provides the rails for the lending itself. The editorial's caution concerns what happens when a model built on one population is applied to another.

A scoring model learns the statistical regularities of its training data, which is drawn from the already-banked. Applied unchanged to a materially different segment, it carries forward correlations that may be artefacts of the original population, and because those correlations can proxy for location, gender or community, the result can be automated exclusion that no one intended and no one can readily detect.

This is why the editorial locates the safeguard at the point of extension: bias and reliability testing whenever the model reaches a new customer group, rather than a single validation at design.

CONCLUSION

A balanced answer should concede the force of the objection that human review at small-ticket volumes is economically infeasible and would in practice be used by the articulate rather than the harmed. The proportionate resolution is to tie the right of review to materiality, and to pair it with a duty to state actionable reasons, so that the applicant learns what to change rather than merely that a machine said no.

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