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Artificial Intelligence (AI) Ethics in Fintech and Startup Ecosystems: A Systematic Literature Review Analysis

Aditya Rawasaputra[1], Rahmat Tullah[2], I Ketut Sudaryana[3] & Jan Everhard Riworuhi[4]

[1,2,3,4] Universitas Budi Luhur, Jakarta, Indonesia, 12260
E-mail: [1]2411700194@student.budiluhur.ac.id. [2]2411700194@student.budiluhur.ac.id,
[3]2411700137@student.budiluhur.ac.id, [4]yan.everhard@budiluhur.ac.id

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ABSTRACT

Artificial intelligence (AI) is reshaping the fintech and startup ecosystem, offering efficiency in credit scoring, fraud detection, investment personalization, and customer service. Yet, its adoption raises pressing ethical challenges, particularly in Indonesia and Southeast Asia. This study conducts a systematic literature review (SLR) using the PRISMA protocol, analyzing over 80 scholarly articles, industry reports, and regulatory documents to examine key ethical issues in AI-driven finance. Findings highlight concerns around algorithmic transparency, data bias, privacy protection, accountability in automated decision-making, and regulatory compliance. Case studies of Indonesian fintech firms reveal emerging best practices, including explainable AI, fairness audits, compliance with the Personal Data Protection Law (UU PDP), and ethics committees. Regulatory frameworks from OJK and international standards such as GDPR and the EU AI Act provide critical guidance, though implementation challenges persist. The review concludes that embedding ethics into AI development lifecycles, strengthening cross-sector collaboration, and enhancing digital literacy are essential to building an inclusive, transparent, and sustainable fintech ecosystem.

1. Introduction

The rapid development of artificial intelligence (AI) has revolutionized the fintech and startup ecosystem globally, including in Indonesia and Southeast Asia. AI is now the backbone of innovation in the digital financial sector, from automated credit scoring and fraud detection to personalized investment services, to chatbot-based risk management and customer service [1]. However, behind the benefits of efficiency and financial inclusion, increasingly complex ethical challenges arise—from algorithm transparency, data bias, user privacy, to accountability for automated decisions and regulatory compliance [2].

These ethical issues are of concern not only to academics and regulators, but also to industry players and the wider public. Cases of algorithmic discrimination in credit scoring, personal data leaks, and unexplained automated decisions have raised concerns about the fairness, security, and public trust in digital financial services [3]. In Indonesia, the Financial Services Authority (OJK), in collaboration with fintech associations, has responded by launching an AI Code of Ethics Guide and updating AI governance guidelines for the financial services sector [4].

This systematic review aims to thoroughly examine the academic and industry literature related to the application of AI in fintech and startups, focusing on key ethical issues: algorithm transparency, data bias, user privacy, accountability of automated decisions, and regulation and policy. Furthermore, the report discusses how fintech companies and startups integrate ethical principles into AI development and implementation, as well as emerging challenges and best practices in Indonesia and Southeast Asia [3].

2. Method

This research uses a systematic literature review (SLR) approach, adhering to the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) protocol to ensure transparency and replicability of the process. 71 Data sources include indexed international and national journals (Scopus, ScienceDirect, IEEE Xplore, Springer, Google Scholar), industry reports, white papers, and regulatory policy documents (OJK, OECD, EU AI Act, etc.).

Keywords used include: "AI ethics in fintech," "algorithmic transparency," "algorithmic bias," "fintech data privacy," "AI governance," "responsible AI," "explainable AI," "fairness in credit scoring," "fintech AI regulation," and "ethical AI startup."

2.1 Inclusion and Exclusion Criteria

Inclusion: Peer-reviewed articles, authoritative reports, white papers, and policies addressing AI ethics issues in the context of fintech and startups, published between 2018 and 2025, available in full text, and relevant to the topic.

Exclusion: Articles that were not peer-reviewed, not relevant to fintech/startups, published before 2018, or not fully accessible.

2.2 Selection Process

Identification: The initial search yielded over 1,000 articles.

Screening: Selection based on title and abstract, eliminating duplicates and irrelevant articles.

Eligibility: Full-text assessment to ensure compliance with inclusion criteria.

Inclusion: Over 80 articles and primary documents were analyzed in depth.

2.3 Data Analysis

Data was extracted and classified based on key themes: AI ethical principles, algorithmic transparency, bias and fairness, data privacy, accountability, regulation, corporate practices, algorithm audits, the role of stakeholders, and future trends and challenges. Analysis was conducted using descriptive, comparative, and narrative synthesis methods.

3. Result and Discussion

3.1 Algorithm Transparency and Explainability in Fintech

Algorithm transparency is a central issue in AI applications in fintech, particularly in credit scoring, underwriting, and fraud detection systems [4], [5]. Complex AI models such as deep learning often operate as "black boxes," making them difficult to explain to regulators, auditors, and end users. This poses challenges in building trust and ensuring regulatory compliance [6].

Explainable AI (XAI) technologies such as SHAP (Shapley Additive Explanations) and LIME (Local Interpretable Model-agnostic Explanations) are beginning to be adopted to improve the interpretability of credit models and fraud detection [7]. Empirical studies show that XAI can identify key factors influencing lending decisions, assist with audits, and facilitate explanations to consumers.

However, challenges remain: the trade-off between model accuracy and explainability, as well as the limitations of XAI in explaining highly complex models or models based on unstructured data. Regulations such as the EU AI Act and OJK guidelines now require documentation and auditability of AI models, including explanations of decision logic to users [8].

3.2 Data Bias and Algorithmic Discrimination in Credit Scoring

Algorithmic bias is a major challenge in AI fintech, particularly in credit scoring and underwriting systems [4], [9]. Sources of bias include:

Historical Data Bias: Training data reflecting past socioeconomic inequalities can reinforce discrimination against certain groups (e.g., gender, ethnicity, region).

Sampling Bias: Underrepresentation of minority groups in the dataset causes the model to fail to generalize.

Label Bias: Biased historical outcomes (e.g., low approval rates in certain communities) are replicated by AI models.

Proxy Bias: Proxy variables (such as zip codes) can be a source of implicit discrimination.

Empirical audits in Indonesia and Southeast Asia show that automated credit systems often reinforce bias against vulnerable groups, such as low-income individuals or those without formal credit histories [10], [11]. Bias mitigation techniques used include data reweighting, adversarial debiasing, fairness-aware algorithms, and regular fairness audits.

However, the literature also highlights the trade-off between model fairness and accuracy, as well as the need for a contextual approach tailored to population characteristics and local regulations [12].

3.3 Data Privacy and User Protection

Data privacy is a key pillar of AI ethics in fintech, given the large volume of personal data processed—from user identities and transactions to digital behaviors [13]. In Indonesia, the Personal Data Protection Law (PDP Law) No. 27/2022 requires fintech companies and startups to review[14]:

1. Obtain explicit consent from users before collecting/processing personal data.
2. Conduct a data inventory and privacy impact assessment.
3. Implement strict privacy policies, encryption, and access controls.
4. Provide users with the right to access, correct, delete, and portability of data.
5. Report data breach incidents within 24 hours.

Case studies show that compliance with the PDP Law not only reduces the risk of sanctions but also increases customer trust and loyalty [15]. The main challenges are the integration of legacy systems, implementation costs, and changes in organizational culture.

3.4 Accountability and Responsibility in Automated Decision-Making

Accountability in automated decision-making is a crucial issue, especially when AI is used for high-impact decisions such as credit approvals, insurance claim denials, or fraud detection [4]. Key challenges include:

1. Black Box Problem: It is difficult to trace the logic of AI decisions.
2. Ambiguity of Responsibility: Who is responsible if an error occurs—the developer, the company, or the end user?
3. Limitations of External Audits: Many companies rely solely on internal audits without public reporting.

Emerging best practices include the establishment of AI ethics boards, internal and external audits, and human-in-the-loop mechanisms for critical decisions. International regulations such as the OECD AI Principles and the EU AI Act emphasize the importance of accountability, auditability, and human involvement in AI oversight [4].

3.5 Regulation and Policy: OJK, the PDP Law, and International Guidelines

Indonesia is one of the Southeast Asian countries that has been proactive in addressing AI ethics issues in the financial sector. The OJK, in collaboration with fintech associations, has launched the Responsible and Trustworthy AI Code of Ethics Guidelines and updated its AI governance guidelines for banking and fintech in 2025 [14]. The main principles in the OJK guidelines include:

1. Pancasila-based
2. Beneficial
3. Fair and just
4. Accountable
5. Transparent and explainable
6. Resilience and security
7. Fairness (new 2025 principles)

These guidelines align with international standards such as the OECD AI Principles, the EU AI Act, and the GDPR. Indonesia's PDP Law also adopts many GDPR principles, with adjustments to the supervisory structure and administrative sanctions.

Implementation challenges in Indonesia include regulatory fragmentation, limited supervisory capacity, and the need to harmonize with global standards without stifling innovation [5], [16].

3.6 Fintech and Startup Company Practices: Case Studies in Indonesia and Southeast Asia

Case Studies: JULO, Kredit Pintar, Bibit, Bareksa

JULO: Using AI for credit underwriting based on alternative data (digital transactions, user behavior), guaranteeing disbursement within 10 minutes, and implementing transparency and compensation features in the event of delays [9].

Kredit Pintar: Adopting machine learning for credit risk assessment, expanding access to the underbanked segment, and conducting regular fairness audits.

Bibit & Bareksa: Using AI-based robo-advisors for personalized investment recommendations, auto-risk profiling, and auto-rebalancing portfolios, with a focus on transparency and user education [18].

Adopted best practices include: bias audits, fairness testing, explainable dashboards, ethics training for staff, and user engagement in feedback loops [11].

3.7 Integration of Ethical Principles in AI Product Development (SDLC, GRC, MLOps)

Integrating ethical principles in the AI development life cycle (SDLC) and risk governance (GRC) is key to ensuring responsible AI. 8 Emerging practices include:

Ethics by Design: Ethical principles are integrated from the product design stage [17].

Algorithm Audits and Fairness Metrics: Use of fairness dashboards, disparate impact analysis, and fairness-aware metrics (statistical parity, equal opportunity, etc.) [8].

Model Cards and Documentation: Each AI model is documented in detail (data, performance, fairness, limitations).

MLOps and LLMOps: Automated deployment, monitoring, and continuous auditing of AI models, including mitigating new drift and bias.

Governance Board and Ethics Committee: Appointment of an AI ethics lead, establishment of an ethics board, and engagement with cross-functional stakeholders.

3.8 Algorithm Audits, Fairness Evaluations, and Ethics Measurement Metrics

Algorithm audits are a key mechanism for identifying and mitigating bias and ensuring fairness in AI fintech systems [5]. Commonly used fairness metrics:

1. Statistical Parity: Equal approval proportions between groups.
2. Equal Opportunity: Equal true positive rates between groups.
3. Disparate Impact: Evaluation of the impact of outcomes on minority groups.

4. Counterfactual Fairness: Evaluation of fairness based on alternative scenarios.

Widely used audit tools: IBM AI Fairness 360, Google Fairness Indicators, Fairkit-learn, and internal fairness dashboards [8], [18]. Audits are conducted periodically, both internally and externally, with reporting to regulators and the public.

3.9 Roles of Stakeholders: Regulators, Associations, Investors, Users, Academics

Regulators (OJK, Bank Indonesia): Formulate guidelines, conduct supervision, and impose sanctions for AI ethics violations.

Industry Associations (AFTECH, AFSI, AFPI, ALUDI): Develop codes of conduct, provide education, and facilitate cross-sector collaboration.

Investors: Encourage the adoption of AI ethics as a condition for funding and due diligence.

Users: Demand transparency, fairness, and data protection; provide feedback and report violations.

Academics: Conduct research, independent audits, and develop fairness and explainability methodologies.

Cross-stakeholder collaboration is key to building an ethical and sustainable AI fintech ecosystem [19].

3.10 Socio-Economic Impact: Financial Inclusion vs. Exclusion Due to AI

AI in fintech has significant potential to increase financial inclusion, especially for the underbanked and unbanked through the utilization of alternative data and the automation of credit processes [17], [19]. However, if not managed properly, AI can also reinforce exclusion due to data bias, limited digital access, and lack of financial literacy.

Empirical studies show that the use of AI in credit scoring based on non-traditional data (e.g., utility payments, e-wallets, social media) can expand credit access without increasing the risk of default [10]. However, the risks of discrimination and privacy violations must still be mitigated through fairness audits and data protection.

3.11 Cybersecurity and Data Breach Risk

Cybersecurity threats in fintech are becoming increasingly complex with the adoption of AI and cloud computing [20]. Cyberattacks such as data breaches, AI-based phishing, and deepfake fraud are increasing significantly. The average cost of a data breach in fintech is expected to reach USD 6 million per incident by 2025.

Mitigation strategies include: end-to-end encryption, multi-factor authentication, cloud security mesh, SIEM, and cybersecurity training for employees and users [13]. Global regulations such as PCI DSS, GDPR, and the PDP Act require the implementation of high security standards.

3.12 Best Practices and Policy Recommendations

Based on a synthesis of literature and case studies, the following are best practices and policy recommendations for fintech and startups [5]:

Integrate Ethics into SDLC and GRC: Apply ethics-by-design principles, fairness audits, and continuous monitoring from the design stage to deployment.

Algorithm Audits and Fairness Metrics: Conduct regular internal and external audits, use fairness-aware metrics, and report audit results to regulators.

Transparency and Explainability: Implement XAI, model cards, and transparency dashboards for users and auditors.

Data Protection and Privacy: Comply with the PDP Law, conduct privacy impact assessments, and educate users about their data rights.

Accountability and Human Oversight: Establish an AI ethics board and establish a human-in-the-loop mechanism for critical decisions.

Cross-Sector Collaboration: Involve regulators, associations, investors, users, and academics in policy development and independent audits.

Digital Education and Literacy: Improve digital financial literacy and public understanding of the benefits and risks of AI.

Inclusive Innovation: Ensure AI drives financial inclusion, not reinforcing exclusion; use representative and fair alternative data.

4. Conclusion

This systematic review confirms that the application of AI in the fintech and startup ecosystem offers significant benefits – from increased operational efficiency and expanded financial inclusion to innovative personalized services that were previously impossible. Numerous studies and case studies demonstrate that AI can be a game-changer in the digital finance industry. However, behind this optimism, fundamental ethical challenges must be addressed. Algorithmic transparency must be ensured so that stakeholders understand and trust AI decisions. Data bias and the risk of algorithmic discrimination are real and could threaten equitable access to finance if not mitigated. Customer privacy is threatened amidst the proliferation of data collection, requiring strict adherence to data protection regulations. Accountability is a key issue – companies must ensure responsibility for AI outputs, not hide behind "machine error." Furthermore, regulatory frameworks and public policies must be continually adapted to foster AI innovation without stifling it.

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