

Managing Customer Trust and Privacy in FinTech Services: Ethical and Legal Perspectives

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Abstract

Financial technology (FinTech) is changing the financial services landscape at a dramatic rate. FinTech is rapidly advancing due to it being intertwined with artificial intelligence (AI) and big data analytics. These technologies provide better service delivery, higher standards of personalization and efficiency, and help prevent fraud. However, all good innovations come at a cost, as AI and big data can also raise ethical and legal questions as it mainly focuses on consumer data privacy, trust, and regulatory ethical obligations. This study attempts to understand how FinTech organizations can leverage technological advancement in data use and ethics to maintain and build customer trust while conceptualizing a sustainable FinTech environment. A descriptive research design, undertook quantitative research was employed for this study, to understand user perceptions regarding AI and FinTech technology trust, especially around privacy concerns, transparency, and regulatory compliance. The study found that ethical AI use, clear data policies, as well as ethical and regulatory compliance directly impacted consumer trust. In this regard, the study provides an understanding of what FinTech firms and organizations should do around trust, compliance, and transparency to adopt and migrate to established digitally sustainable financing systems.

Keywords: FinTech, AI, Customer Trust, Data Privacy, Ethics, Regulatory Compliance

Introduction

The FinTech sector is experiencing unprecedented growth, revolutionizing the manner in which consumers can access and receive financial services. The emergence of artificial intelligence and machine learning is changing financial platforms into efficient, personalized digital solutions. While these changes improve the quality and availability of services in the market, they pose immediate implications for data security, transparency, and liability. Users expect that their personal and financial data will be used securely and ethically. Therefore, the balance between innovation and responsibility recognized. This study explores FinTech companies' capacity to manage customer trust and privacy in ethically compliant, legally mandated environments.

Literature Review

The rise of AI in financial services has resulted in better fraud detection, process automation, and customized offerings. Aldboush and Ferdous (2023) point out that as AI enters the FinTech space, it brings challenges in data ethics and privacy issues. For AI capabilities to improve service delivery, Aldboush and Ferdous (2023) assert that companies must think responsibly about how they govern data usage. If companies rely on AI and its transactional capabilities without responsible governance, there are risks to the integrity of the company, which may erode trust from users.

Vasquez and San-Jose (2022) state that by practicing ethical behavior, transparency, and data protection as part of business-as-usual protocols, companies can establish a foundation for trust. Vasquez and San-Jose (2022) investigated the role of ethical conduct for trust building by examining the relationship between consumer confidence in digital platforms and ethical business practice and determined a strong relationship exists between ethical conduct and consumer confidence in the use of digital platforms.

Oyewole et al. (2024) highlighted the need for organisations to be transparent in data practices at all levels of business and comply with international data protection standards such as the General Data Protection Regulation (GDPR). Organizations must understand violations may lead to regulatory penalties but may also lead to harm to the company's brand and may erode customer trust in the company. Oyewole et al. (2024) provide communications that the best practice for complying with data protection privacy is to have informed consent and transparency in data collection, overall data handling and user consent processes.

While previous studies demonstrate awareness of AI and the importance of compliance, there is limited research that examines how practice these elements together to develop long-term trust in FinTech customer relationships. Therefore, this study proposes to develop a gap in the research from a best practices approach of forming a framework around governing the ethical use of data with technological implementation.

Research Methodology

Objective: To understand the ethical and legal elements associated with customers' trust and privacy implications in AI-infused FinTech services.

Design: This study has a descriptive research design. A survey of users of AI-enabled financial services and products was used to collect feedback on their experiences.

Sampling: This was a non-probability sampling study. Convenience and snowball sampling provided insights from users of AI-powered financial service platforms. Respondents were individuals that used digital banking, robo-advisors, algorithm-based lending platforms, among others.

Data collection and analysis: Data was collected via online surveys with multiple-choice and Likert-type scale questions. Statistical techniques assessed the relationships between AI usage, privacy concerns, and trust as they relate to the individual. Statistical techniques to assess reporting included regression and correlation.

Results and Discussion

Demographic Insights: Respondents varied in age, gender, and frequency of FinTech usage. Younger participants showed higher acceptance of AI but remained cautious about privacy. Older users were less familiar with AI but more concerned about data safety.

Trust and Privacy Analysis: Analysis shows a significant positive correlation ($r = 0.789$) between AI-enabled service adoption and customer trust, provided privacy safeguards are in place.

Regression analysis indicates a strong predictive relationship ($R^2 = 0.612$) between ethical AI usage and increased trust.

Customers prioritize transparency, clear consent procedures, and assurance of secure data handling. The study underscores the importance of ethical AI frameworks and regulatory compliance in maintaining user confidence. FinTech firms must proactively communicate their ethical standards to ensure public trust.

Dependent variable	R ² value	Coefficient	P – value	Interpretation
Customer trust	0.612	0.782	0.000	AI driven fintech services has a significant impact on customer trust

The findings indicate that AI driven Fintech services significantly enhances customer trust when implantation with strong ethical and privacy considerations .

Correlation Analysis

A correlation analysis measured the strength of the relationship between AI- DRIVEN Fintech implementation and customer trust.

Variables	Correlations Coefficient	Interpretation
AI implementation & customer trust	0.789	Strong positive correlation

These findings reinforce that AI – DRIVEN Fintech services positively influence customer trust, highlighting the importance of ethical AI practices, transparency, and regulatory compliance in maintaining consumer confidence.

Discussion of Findings

The study confirms that customers are more likely to trust FinTech solutions when companies highlight ethical use of AI, transparency in policies, and legal compliance. Service efficiencies alone are not enough, as customers worry about data breaches, algorithmic biases, and the obscurity around decision-making.

The implications are clear: FinTech companies should introduce consumer education initiatives, transparent AI models, and strong data security protocols. The long-term enhancement of trust is not restricted to what technology can do, but to the responsible use of that technology.

Research Gap

While there is increasing literature on FinTech and AI, not many papers offer a holistic linkage of ethics, trust, and regulation. Additionally, there are relatively few studies tackling sector-specific challenges related to AI use. Therefore, this study aims to address these gaps by discussing a holistic approach to development, as indicated by ethical and regulatory practices, that fosters trust.

Conclusion

AI-enabled FinTech platforms can potentially revolutionize financial ecosystems in terms of speed, security, and personalization of transactions. There are ethical and legal obligations associated with these technologies. This study identifies that the long-term trust of financial institutions can be assured through integrating AI with ethical guidance and legal requirements.

FinTech institutions must practice transparency in their data processes, educate users, and adhere to changing data protection legislation. These actions will provide regulatory protection and improve their trustworthiness and loyalty to and from their customers. As digital finance evolves, the challenge will be balancing innovation with ethics and legislation for customers.

Limitations

The sample may not provide a complete representation of all Fintech users because of the small number of participants and the non-random sample.

The current study uses cross-sectional data, meaning it does not provide insight into long-term trends.

Qualitative insights were also not included, and this would likely have improved the understanding of user sentiment.

Suggestions for Future Research

Conduct longitudinal research to examine changing trust trajectories in FinTech.

Examine the particular sectoral challenges faced in sectors such as lending, insurance, and digital payments.

Utilize mixed methods research to obtain quantitative and qualitative insights.

Investigate transparency models of AI and their effectiveness in building customers' trust.

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