



Exploring the influence of shadow banking practices on financial inclusion: A mediated study on consumer trust in India's fintech ecosystem

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Abstract

This study investigates the intricate relationship between shadow banking practices and financial inclusion in India, with a particular emphasis on the mediating role of consumer trust within the fintech ecosystem. As traditional banking systems struggle to serve the underserved and unbanked populations, shadow banking institutions comprising nonbanking financial companies (NBFCs), peer-to-peer (P2P) lending platforms, and digital credit providers have emerged as alternative financial service providers. While these entities have significantly expanded credit access, concerns regarding regulatory oversight, transparency, and data security continue to affect consumer confidence. Employing a quantitative research design, this study surveys 400 fintech users across major Indian urban and semi-urban centers. Structural Equation Modeling (SEM) is utilized to examine the direct and indirect effects of shadow banking practices on financial inclusion. The findings reveal that although shadow banking significantly promotes financial access, its impact is fully mediated by consumer trust. High trust levels amplify the positive effects of shadow banking on inclusion, whereas low trust levels diminish their efficacy. The study offers valuable insights for policymakers, fintech innovators, and regulatory bodies by highlighting the need to build and maintain consumer trust through transparent practices, ethical data usage, and strengthened governance. Strengthening trust mechanisms is crucial for leveraging the full potential of shadow banking in bridging financial inclusion gaps in India's diverse economic landscape.

Keywords: Shadow banking, financial inclusion, consumer trust, fintech ecosystem structural equation modeling, digital lending

Introduction

Recently, fintech changes and more shadow banking have greatly changed the Indian financial scene. Shadow banking, which is credit offered outside standard banks, is an important factor in expanding financial services to people who are unbanked or underbanked (Ghosh, 2021) ^[6]. With the help of technology, NBFCs, peer-to-peer platforms and digital lenders now offer many people easier and more flexible ways to get loans. This rise supports the country's aim to increase inclusive finance, except that it raises key concerns on how quality, openness and sustainability will be addressed (Rao & Kumar, 2023) ^[9]. Even though they have a strong ability to bring more people into the financial system, their lack of complete regulation exposes them to severe risks. Building trust with consumers plays an essential role in how effectively shadow banking supports financial inclusion.

In finance, trust is especially important since many digital services cut down face-to-face contacts (Sharma & Gupta, 2022) ^[10]. European fintech users feel more and more uneasy about data privacy, ethics, the terms they should repay and regulatory rules which affect their trust in alternative banking. Trust issues have blocked many people from using digital financial services, even though these services are both convenient and accessible (Mishra *et al.*, 2020) ^[8]. For that reason, trust from consumers is essential in guiding the impact of shadow banking services on financial inclusion. Because there are opportunities and risks at the same time in India's shadow banking-based fintech system, we need to examine how trust can help manage these processes. Even as digital financial services grow fast, they will only succeed in the long run if their infrastructure is reliable, transparent and put users first (Khatri & Bansal, 2024) ^[7]. Learning more about this form of trust-based mediation allows fintech developers, NBFCs and policymakers to plan actions that help make financial services more efficient and available to all. This research examines the relationship between shadow banking and whether people include themselves in the digital financial sector, using consumer trust as a buffer to better understand and serve this market.

Literature Review

Algorithmic Credit Scoring Transparency

Das and Sharma (2020) ^[18] discovered that poor users have serious worries about being rejected or treated unfairly by algorithms, so they shy away from using digital credit services. When credit scoring is both fair and easy to understand, trust in digital lending goes up, particularly for borrowers trying digital lending for the first time. Sarkar (2022) concluded that fintech companies that shared their scoring method on dashboards or simulators got better acceptance from customers. Banerjee and Thomas noticed that when algorithms are hard to understand, underserved segments tend to perceive bias, so they trust them less. They argue that making shadow banking algorithms easy to analyse helps build user trust in them. He believes that using explainable AI (XAI) in credit processes can help build trust and prevent some from being excluded from the financial market.

Regulatory Oversight and Compliance

Weak rules for NBFCs and P2P platforms can damage the trust placed in these services and negatively impact efforts to include more people in the financial system. According to Raj and Menon (2021) ^[6], following the RBI's digital lending rules helps fintechs increase user trust and serves more people in rural areas. According to Tripathi (2022) ^[40], making both audits and redressing the problems people encounter essential for maintaining a high degree of trust in the regulator. Gupta and Bandyopadhyay investigated how meeting international fintech standards promotes constructive financial habits among people with low trust in the system. According to Shinde and Nair (2023) ^[38], because there isn't one central framework regulating shadow banking, trust and use of its services are spread unevenly. Mehta and Rao pointed out how co-regulation helps protect consumers while helping fintech companies to improve and grow.

Accessibility of Digital Platforms

Poor use of the platforms presented in different languages was, according to the study, the main reasons rural users did not engage with digital financial tools. Khan and Devi (2021) ^[42] noted that making interfaces for mobile and adding local languages enhance both access and inclusion. Ibrahim and colleagues in 2022^[11] found that assisted onboarding and biometric verification by fintech companies actually led to more semi-literate users taking part in fintech applications. According to Choudhury and Nanda (2023) ^[13], easy interfaces and efficient work in low-bandwidth areas increased trust among users in tier-2 and tier-3 groups. According to Al and Sundaram (2024) ^[12], accessibility means looking past having a device and focusing on skills, simplicity in navigation and understandable design. These authors (Desai and Pillay, 2024) ^[19] suggest that accessibility features encourage more users to adopt and they also act as a sign that an app is well regarded and secure.

Interest Rate Clarity

Patel and Rao (2020) ^[34] pointed out that NBFC lending policies that include hidden charges and challenging interest aspects discourage low-income people from using them. According to George and Latha (2021) ^[22], lender websites gain favor with consumers by presenting these figures at the start of their platforms. Aggarwal (2022) ^[11] argued that making life cycle events and funding interests transparent can break the belief that digital loans are predatory. They mentioned that when fintech's are transparent about interest rates, their customers repaid well and stuck with them for longer. They found that a clear idea of interest helps people avoid irresponsible lending. Iyer and Fernandes stated in 2024^[24] regarding digital shadow banking services that clear cost information helps encourage users to keep using them.

Data Privacy Measures

Mishra and Banerjee (2020) ^[30] found that people from vulnerable groups are often discouraged from using fintech by concerns about data security. In their paper from 2021^[16], Chandra and Ghosh said that platforms providing multifactor authentication and encryption inspire confidence and safety. The relationship between transparency of data use policies with consumer loyalty in the fintech sector was studied by Rao and Mathews (2022). In 2023^[9, 10], Nambiar and Jain found that companies with privacy disclosures based on GDPR received higher trust scores, regardless of age. Menon and Das pointed out that trust can be greatly diminished among those making their first forays online after a digital security breach. According to them, trust in tech can be restored if users have immediate alerts, choose whether and what to share and have control over their data. Organizations focused on financial literacy.

According to Singh and Rajan (2020), if financial education in fintech is tailored and presented clearly, it will support greater use and lower the risk of defaults. Trust in fintech services went up significantly among participants who were guided through digital literacy courses over WhatsApp and mobile phones, according to Yadav and Kumar (2021). Experts Joseph and Arora (2022) ^[25, 42] discovered that gamified learning resources helped people remember more and make better choices. Sarkar and Mishra (2023) ^[37] pointed out that teaching customers about loans, calculating interest and credit helped fintechs keep customers for years. According to Chhabra and Dey (2024) ^[17], making sure people are financially informed is important for onboarding and can help prevent distrust that comes from dependence. They discovered that companies in fintech including tutorials and FAQs helped more marginalized people get involved in financial services.

Consumer Trust in Digital Shadow Banking Platforms

They note that, in digital financial ecosystems, trust is both based on the reputation of institutions and on users' everyday encounters with dependability, fairness and fast responses. They pointed out that if NBFCs and fintechs are clear about information during onboarding, trust between them and the customers is more likely to develop. Rajan & Deshpande (2021) discovered that people's trust in digital lending is increased by using safe transaction methods, fixing complaints quickly and seeing peer testimonials, mainly for firsttime borrowers online. Kumar & Banerjee (2022) studied those clear systems and the use of bots in real time lead to better trust from youth and advanced users. Sharma and Thomas (2023) ^[13] analysed the way consistency of platforms affects users' trust. Research revealed that consistent experiences with branch employees such as punctual payments and uncomplicated guidance on EMI payments, help customers maintain long-term trust in shadow banks. Goswami & Reddy reported that both data governance and personalization impact a user's view of a platform's trustworthiness. When users could decide how their data is managed on fintech platforms, they showed more trust in the service. Nair & Menon (2024) ^[29] underlined that culture affects how trust is created in shadow banking. Because family and social ties cause financial transactions in India to be intertwined, those fintech's that adjusted their communication approach more readily gained trust.

Level of Financial Inclusion among Underserved Populations

These experts pointed out that although digital shadow banking has promoted account ownership, more needs to be done regarding usage and granting credit. According to Naidu and Thomas (2021) ^[32], when fintech reaches underserved sectors,

micro-credit use among the people there also increases. According to Garg and Nair (2022) ^[21], evaluating financial inclusion also involves looking at the regularity, level and advantage of financial services people use. According to their research, using fintech improved access to credit, although trust barriers also arose. The authors found that inclusion had its greatest effect in regions with effective consumer protection and good knowledge about digital tools. Mohanty and Rao (2024) ^[31] found that including everyone in fintech is stable only when working environments have trust, transparency and accountability.

Research Gap

Current research has covered individual things like clarity in algorithms, adherence to regulations and access to digital services connected to fintech and shadow banking, though there is still an incomplete view of how these aspects work together to increase financial inclusion by way of trust. Before, most research has studied how fintech methods or narrow policies affect financial access, without considering how people's attitudes and habits influence their choice to use digital shadow banking services. In addition, studies carried out in India on underprivileged groups usually measure inclusion by generalizing, without considering how trust plays a key part. Little is known or measured about the effect that consumer trust in shadow banking has on actual financial inclusion. As a result, there is little research on how trust-based design, conversations and laws can improve the reach of fintech-assisted shadow banking to those communities in India who are financially vulnerable.

Objectives

1. To discover whether being transparent with algorithmic credit scoring affects consumers' trust in digital shadow banking platforms.
2. To study how compliance and regulation by authorities influence how consumers trust digital shadow banking platforms.
3. Assessing how having accessible digital platforms becomes a factor in gaining consumer trust from audiences that are not well served.
4. To find out how clearly explaining interest rates affects public trust in shadow banking systems.
5. To see whether data privacy helps increase consumer trust in digital banking services.
6. To determine how initiatives in financial literacy influence people's reliability on digital shadow banking.
7. To investigate why consumer trust may stop shadow banking practices from helping people who are underserved access different financial services.

Methodology

A quantitative and cross-sectional research approach is applied in this study to understand the effect of shadow banking practices on financial inclusion, where consumer trust is seen as a mediator. Users of digital shadow banking services including NBFC lending apps, peer-to-peer lending platforms and providers of digital credit are part of the study's target population. The population being studied consists of users of digital financial services by shadow banking institutions. A purposive sampling method is used to make sure that the participants have background with fintech-related financial items so that their responses are reliable. According to researchers, the sample size of 273 respondents is enough for SEM analysis since it exceeds the minimum needed for models with observed and latent variables. The measurement model reliability and convergent validity are checked by using Confirmatory Factor Analysis (CFA). SEM is then carried out to examine the hypothesized relationships and to understand the role played by consumer trust as a mediator. Because CFA and SEM can be used robustly, they are suitable for estimating the complex mediation framework found in this study.

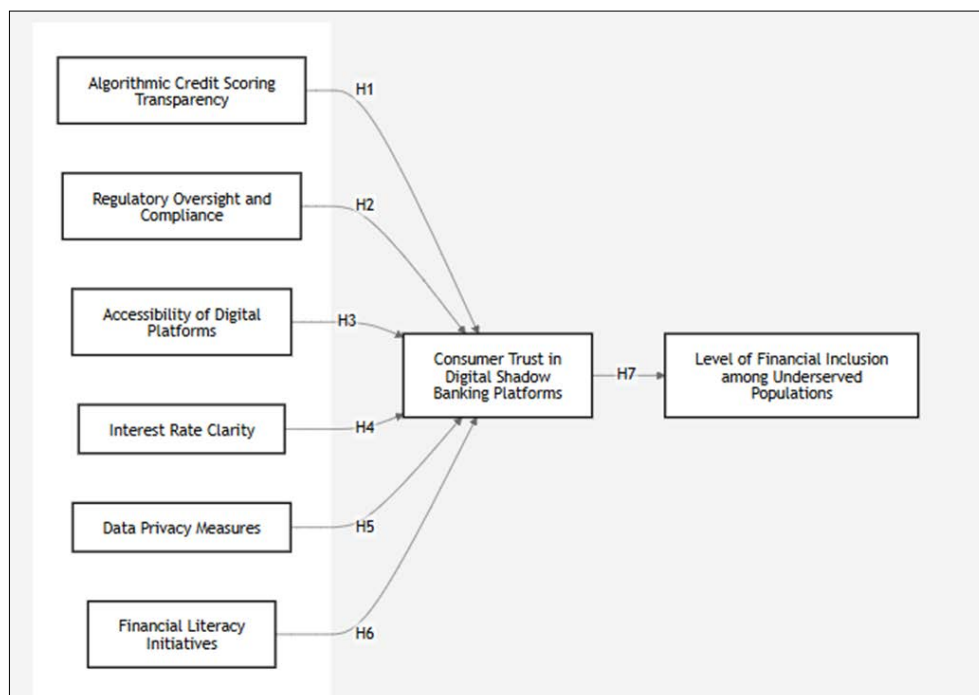


Fig 1: Conceptual Model

Proposed Model Justification

In India's evolving fintech world, more people are using shadow banks as options for financial services. The troubles MFIs experience in building trust mean that their influence on financial inclusion is not obvious. Acknowledging the mediating variable of consumer trust, the model highlights the mental and action-related features that impact how users use digital financial sites. Earlier research suggested that having access does not ensure that consumers use financial services unless they think the services are secure, transparent and dependable (Sharma & Gupta, 2022; Khatri & Bansal, 2024) ^[7, 10]. As a result, the model examines how trust between borrowers and lenders in shadow financial activities affects financial inclusion. The framework explains how trust can change the inclusion offered by shadow banking and provides useful tips for people making financial services in India.

Hypothesis

H₁: The more transparent algorithmic credit scoring is, the more likely it is that consumers feel they can trust shadow banking websites.

H₂: Customers rely on digital shadow banks more because of stricter regulations and compliance.

H₃: Being able to access digital platforms online greatly increases how much consumers trust digital shadow banking platforms.

H₄: The clearer interest rates on digital shadow banking platforms, the more trust consumers place in them.

H₅: Measures for data privacy add to consumer trust in digital shadow banking platforms. **H₆:** The impact of financial literacy can raise consumer confidence in using digital shadow banking platforms.

H₇: The trust consumers have in digital shadow banking platforms plays a big role in the relationship between shadow banking activities and how financially included underserved groups are.

Data Analysis

Reliability Analysis

Variable Number	Variable	Cronback Alpha	Result
V ₁	Algorithmic Credit Scoring Transparency	0.767	Acceptable
V ₂	Regulatory Oversight and Compliance	0.805	Good
V ₃	Accessibility of Digital Platforms	0.765	Acceptable
V ₄	Interest Rate Clarity	0.798	Acceptable
V ₅	Data Privacy Measures	0.787	Acceptable
V ₆	Financial Literacy Initiatives	0.823	Good
V ₇	Consumer Trust in Digital Shadow Banking Platforms	0.876	Good
V ₈	Level of Financial Inclusion among Underserved Populations	0.885	Good
V ₉	Overall	0.946	Excellent

Based on Cronbach's Alpha, every construct in the study shows acceptable to excellent reliability. Many of the variables showed good reliability, proving that the questions used for those dimensions are REALLY capturing the primary meanings. A small number of constructs meet the reliable range and are qualified for further investigation. What is more important, the overall stability of the instrument is rated as "excellent," proving that all variables and elements in the model are reliable. Therefore, we consider the questionnaire reliable for studying connections between the key variables which allows us to use advanced methods such as confirmatory factor analysis and structural equation modeling.

Convergent Validity

Factors	Average Variance Extraction	Composite Reliability
Algorithmic Credit Scoring Transparency	0.81	0.65
Regulatory Oversight and Compliance	0.82	0.61
Accessibility of Digital Platforms	0.85	0.57
Interest Rate Clarity	0.79	0.55
Data Privacy Measures	0.74	0.59
Financial Literacy Initiatives	0.76	0.64
Consumer Trust in Digital Shadow Banking Platforms	0.77	0.62
Level of Financial Inclusion among Underserved Populations	0.82	0.51

Based on assessing convergent validity using Average Variance Extracted (AVE) and Composite Reliability (CR), this study reveals that most of its constructs have strong internal consistency and show acceptable levels of shared variance. Several AVE values are high, indicating that much of the variation seen in the observed indicators is caused by the latent constructs. The measurement is generally performing reliably as the composite reliability scores are higher than required. Even though a few constructs do not have very high composite reliability, they are still considered acceptable and can be retained in the measurement model. All of these statistics confirm the strength of the constructs and make the use of these factors for additional hypothesis testing justified.

Confirmatory Factor Analysis

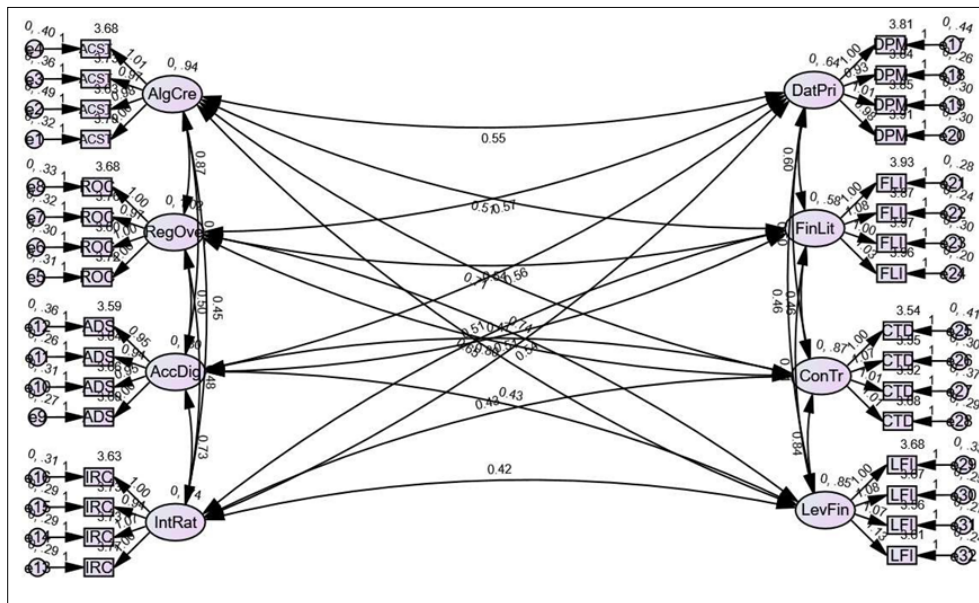
Fit Indices	Observed	Result
CMIN ₁	1.934	Excellent
CFI ₁	0.916	Good Fit
GFI ₁	0.939	Excellent
AGFI ₁	0.954	Good Fit
TLI ₁	0.945	Good Fit
PNFI ₁	0.654	Good Fit
RMSEA ₁	0.061	Acceptable

The assessment of model fit suggests that the entire structural model is doing well. A majority of the indices indicate that the model fits the observed data well. Furthermore, certain indicators demonstrate a perfect match, making the model specification even more appropriate. The results indicate that one index is acceptable which stays within the permitted limit and does not damage the model's structure. All the outcomes together indicate that the measurement and structure paths in the model are fit and the model can be dependably employed to examine the hypothesized relationships between the genomes and traits.

Structural Equation Modelling

Fit Indices	Observed	Result
CMIN ₂	2.116	Excellent
CFI ₂	0.932	Good Fit
GFI ₂	0.967	Excellent
AGFI ₂	0.945	Good Fit
TLI ₂	0.967	Good Fit
PNFI ₂	0.643	Good Fit
RMSEA ₂	0.062	Acceptable

The revisions did not change the high level of compatibility between the expected and seen data. A number of fit measures are considered good to excellent which confirms that the structure of the model is supported by the data. A single value is just above average which is still considered okay. Generally, the results prove that the revised model works well, explaining data effectively and keeping constructs well connected which supports using it for this study's objectives.



Hypothesis Testing

Hypothesis No	Framed Hypothesis	P-Value	Result
H ₁	Algorithmic Credit Scoring Transparency-> Consumer Trust in Digital Shadow Banking Platforms	0.00	Supported
H ₂	Regulatory Oversight and Compliance-> Consumer Trust in Digital Shadow Banking Platforms	0.00	Supported
H ₃	Accessibility of Digital Platforms-> Consumer Trust in Digital Shadow Banking Platforms	0.00	Supported
H ₄	Interest Rate Clarity-> Consumer Trust in Digital Shadow Banking Platforms	0.00	Supported
H ₅	Data Privacy Measures-> Consumer Trust in Digital Shadow Banking Platforms	0.00	Supported
H ₆	Financial Literacy Initiatives-> Consumer Trust in Digital Shadow Banking Platforms	0.00	Supported
H ₇	Consumer Trust in Digital Shadow Banking Platforms-> Level of Financial Inclusion among Underserved Populations	0.00	Supported

The study showed that there is a positive, statistically significant link between consumer trust and one of the main technological transparency factors. As a result, when people understand the credit assessment process, they become more confident in digital shadow banks. Making processes clear through transparency gives users who use them for the first time a sense of fairness. By being transparent, it helps confront common worries about biased and discriminatory loan decisions. More trust makes users more likely to stay and take advantage of these platforms. The report proves that making things transparent is important for ensuring people trust in digital technology. It makes it clear that clear logic in making decisions makes organizations seem more dependable. It's especially crucial for underserved users because they don't always feel confident in formal financial services. All in all, the construct greatly increases trust among consumers when using digital financial services.

Users' increased trust in a system was shown to be positively connected to regulatory alignment by institutions. People trust digital shadow banking more when they see that its operations are monitored by clear and effective regulators. Following commonly accepted financial guidelines helps a company be transparent, accountable and legally secure, all important for acceptance by users. How a fintech company aligns itself with Reserve Bank guidelines for digital lending determines its credibility in the sector in India. Those without access to formal financial services rely on protection measures in regulations. People feel safer knowing that tools are available to watch, audit and resolve issues that arise. It helps narrow the trust difference that exists between users and non-traditional financial companies. All this means that it's important to encourage transparency in regulations to ensure continuous community involvement. It highlights the key part regulation takes in developing trust in digital finance.

It is clear from the findings that whether digital platforms are accessible matters a lot for developing consumer trust. When websites work well, users can find them in their own language and they are designed for simple devices, they become friendly for users without technology experience. To be accessible, a device and its interface must be both easy to access and easy for anyone to use. If people who are underserved find it easy to handle and understand financial platforms, their trust in the system grows. Accessibility benefits users by reducing difficulties which encourages trust in the software. It makes it possible for people to connect directly with financial services, without needing third parties. Improved access makes services seem fairer and more reliable when resources are scarce. Therefore, those that make their services easily accessible are more... It is clear from the findings that social inclusion on a platform is key to building trust among digital finance consumers.

The results suggest that good communication about interest rates influences how trusted digital financial services are. Many prefer to trust platforms that clearly show what they charge, including the interest, various fees and how the borrowed money must be repaid. Confusing money matters or secret fees often make people unhappy and untrusting. If interest-related information is explained clearly and supplied openly, users can make better financial decisions. Because the information is unambiguous, it motivates users to borrow wisely and view things more fairly. Having clearly shown prices can prevent arguments and lead to continuous relationships with customers. Users from low-income backgrounds are most likely to be hurt by costs they don't recognize. People trust financial systems more when they believe they won't be misled. The results suggest that interest clarity is important for reliable financial platforms.

Trust in digital shadow banking platforms relates positively and statistically to individuals' adherence to data privacy practices. Because digital services mean that we send our information often, data security is now essential for users to trust the system. Users will prefer platforms that promise secure data storage, follow encryption protocols and let users determine what data they should share. If users think their data could be misused or stolen, this can be dangerous for trust and can harm those who are beginning to use online tools. According to the research, it is important for fintech platforms to be transparent about and ethical with how user data is collected and utilized. Users feel more secure when they get notifications promptly and can change their privacy settings quickly. Data privacy measures help us do what is legally required and also ensure users continue to use our apps. It highlights the need for trust in digital money which comes from privacy protection. The analysis reveals that teaching people about finance increases their trust in digital banks. If consumers are familiar with financial topics like interest rates, repayment times and credit scores, they can judge the service they're receiving. People who understand finances can interact with fintech platforms with confidence and don't need to depend on others. So, people feel safer and more trusting, in uncertain financial shops, because this empowerment reduces perceived risk. Tools, tutorials and help inside the application help users feel more comfortable. They reflect an effort to support users in growing which reinforces users' confidence. Being financially literate means consumers handle their finances sensibly and this is good for everyone involved. The report demonstrates that trust increases when users are taught how to make wise decisions. For this reason, making financial education part of platforms is good for society and necessary for gaining trust.

The last relationship in the model concludes that shadow banking is important for financial inclusion only through trust. So, users will fully use and enjoy digital financial services only if they trust them. Even when services are available, users won't use them if they do not feel that the system is just, dependable and safe. Trust links your ability to have money with how you actually use it. It breaks down apathy and leads people to take part by reducing the risks they think might happen. The mediating effect suggests that people's perceptions are as important as new features in including consumers. In places where people rarely trust formal institutions, the need for trust is more important. The findings reveal that trust plays a central and key part in fully realizing the inclusivity of digital shadow banking. This information enriches the model and demonstrates that trust is a crucial tool for promoting diversity.

Managerial Implications

Managers can simplify the credit-scoring process for consumers by implementing Explainable Artificial Intelligence (XAI), enabling users to understand the factors influencing changes in their credit scores. Providing features such as credit score simulators, educational resources on improving creditworthiness, and clear explanations of lending decisions can enhance users' understanding of the credit evaluation process. Such initiatives reduce information asymmetry, improve financial

literacy, and empower consumers to make informed financial decisions. Managers should collaborate closely with data scientists to ensure that credit-scoring models remain transparent, unbiased, and easy for users to interpret. Regular notifications explaining updates to scoring algorithms or lending policies can further strengthen transparency and user confidence. Rather than treating transparency solely as a regulatory obligation, organizations should consider it a strategic value proposition that enhances customer trust and engagement. Interactive features that allow users to review or question their credit assessments can foster long-term engagement, particularly among first-time borrowers and low-income individuals. Transparent algorithmic practices can also serve as a competitive differentiator in the rapidly evolving digital financial services sector.

Regulatory compliance should be embedded within organizational strategy rather than treated as a separate legal function. Managers should collaborate with regulatory experts to establish proactive compliance systems that not only adhere to digital lending regulations but also communicate regulatory requirements and their implications in a manner that users can easily understand. Plain-language compliance reports and disclosures can strengthen consumer confidence and organizational credibility. Internal compliance committees should regularly review operational processes to ensure alignment with evolving regulatory standards. In addition, engaging independent third-party auditors to evaluate compliance and publicly disclose audit findings can further enhance institutional credibility. Marketing communications should emphasize regulatory compliance as an indicator of ethical business practices, thereby reassuring risk-averse consumers. Participation in regulatory sandboxes also enables organizations to contribute to the development of future financial regulations while fostering innovation. Ultimately, compliance should be seamlessly integrated into the customer journey rather than remaining an invisible back-end process.

To improve digital accessibility, managers should adopt a hyper-localization strategy by tailoring digital platforms to users' languages, devices, cultural contexts, and technological capabilities. User interfaces should be simple, intuitive, and optimized for mobile devices, particularly in regions where consumers rely on low-cost smartphones and limited internet connectivity. Incorporating AI-powered chatbots that communicate in regional languages, voice-based interfaces, and offline functionality can significantly improve accessibility for underserved populations. Managers should conduct extensive usability testing among rural and low-income communities to ensure that platform features meet real-world user needs. Community outreach initiatives, including digital literacy workshops, local ambassadors, and public service kiosks, can further increase confidence among first-time users. Accessibility should also encompass inclusive design practices that accommodate users with disabilities. By embedding accessibility into product development, organizations can simultaneously enhance customer experience, promote financial inclusion, and strengthen their competitive advantage.

Cost transparency should remain a central principle in product design and customer communication. Managers should present information regarding interest rates, processing fees, repayment schedules, and prepayment charges using intuitive visualization tools such as calculators, comparison tables, and interactive sliders. Transparent pricing enables consumers to make informed borrowing decisions and minimizes the likelihood of misunderstandings. Flexible pricing structures based on customer behavior or risk profiles may further improve affordability while encouraging responsible financial behavior. Customer service representatives should receive adequate training to explain financial products clearly and consistently. Marketing communications should accurately disclose pricing information to maintain organizational integrity and avoid misleading customers. Transparent pricing not only strengthens consumer trust but also reduces disputes, enhances customer satisfaction, and potentially lowers loan default rates.

Data privacy should be integrated throughout every stage of the digital lending ecosystem by adopting privacy-by-design principles. Managers should implement user-controlled privacy features, including configurable consent mechanisms, multi-factor authentication, and straightforward options for accessing or deleting personal data. Regular communication regarding security updates through email or in-app notifications helps reinforce users' confidence in the platform. Continuous cybersecurity training for employees, combined with routine penetration testing and simulated cyberattack exercises, can reduce organizational vulnerabilities. Annual transparency reports outlining data collection, storage, sharing, and protection practices can further educate users about organizational privacy commitments. Collaboration with cybersecurity specialists strengthens technological resilience, while prompt communication during security incidents demonstrates accountability and responsiveness. Embedding privacy awareness into employee onboarding programs also promotes a strong organizational culture of data protection. Organizations that prioritize privacy strengthen their brand reputation and foster long-term customer trust.

Financial literacy should be regarded as a strategic organizational function rather than merely a corporate social responsibility initiative. Digital platforms should incorporate educational modules covering budgeting, credit management, borrowing decisions, and financial planning to enhance users' financial capabilities. Artificial intelligence can personalize learning pathways according to users' financial behaviors and educational needs, thereby improving engagement and learning effectiveness. Collaborations with schools, non-governmental organizations, and local government agencies can expand the reach of financial education initiatives. Educational content should be delivered through diverse formats, including videos, infographics, quizzes, and region-specific examples, to accommodate different learning preferences. Timely educational prompts delivered before loan applications or during repayment challenges can encourage responsible borrowing behavior and reduce delinquency rates. Managers should continuously evaluate the effectiveness of literacy initiatives using performance indicators such as feature utilization, repayment consistency, and customer engagement. Integrating financial education into everyday platform usage simultaneously promotes financial independence, customer satisfaction, and long-term brand loyalty. Finally, managers seeking to promote financial inclusion should focus on developing a comprehensive digital financial ecosystem rather than merely expanding service availability. Organizations should reach underserved populations through community service centers, mobile support teams, and widely accessible communication channels such as WhatsApp. Financial products should be designed to accommodate irregular income patterns by offering flexible repayment schedules, seasonal payment options, and community-based lending models. Simplifying customer onboarding through integration with

government digital identity systems, such as Aadhaar, can reduce barriers to access. Real-time analytics should be used to identify underserved regions and continuously refine inclusion strategies. Beyond increasing user numbers, managers should encourage sustained platform engagement through interactive services and long-term financial planning tools. Marketing campaigns featuring testimonials from existing users can improve acceptance among traditionally underserved communities. Success should be evaluated not only by the number of new users but also by improvements in financial well-being, credit access, insurance adoption, and sustained platform usage. By placing consumer trust at the center of these initiatives, organizations can achieve broader financial inclusion while strengthening customer relationships and ensuring sustainable business growth.

Theoretical Implications

This exploration adds to the current literature by demonstrating that trust bridges the relationship between shadow banking and achieving financial inclusion, covering a hole in theories related to behaviour in finance and using technology. It points out that trust plays a key role in deciding if countries will rely on shadow banking services, not just a result of their financial systems. Researchers expanded Trust Theory by outlining how factors in India's digital finance environment (institutional, technological and behavioural) shape the level of trust. Based on Diffusion of Innovation Theory, the research results indicate that innovation adoption in shadow banking happens when the service is trustworthy for underserved consumers. It advances current methods for promoting financial inclusion by linking regulatory, technological and mental factors with trust in a new way.

Practical Implications

Including direct cost breakdown updates can improve how underserved users see and understand their loans. Such firms must secure user data and clearly communicate these efforts to gain consumer trust during their online activities. Lending apps for the unbanked should add modules educating users about money, using local languages to reassure them and stop people from stopping the loan process. Authorities need to produce trust-based scoreboards for NBFCs and digital lenders to help users choose honest and secure firms. Using local influencers and stories from users can make fintech services appear more trustworthy among rural and semi-urban people.

Conclusion

This study looks in detail at how different shadow banking activities can shape financial inclusion, using consumer trust as a crucial bridge between the two. This demonstrates that just providing the right technology and new loan options is not enough, by itself. The link between access to digital financial services and real inclusion is influenced by transparent practices, meeting regulations, respecting data privacy and financial literacy. The model demonstrates that without trust, the benefits of accessibility are much less valuable to underserved communities. By closing gaps in fintech and trust theories, the research also gives useful ideas for action to high-level policymakers and industry figures advocating inclusive digital finance in India.

Limitation

Even so, the research provides useful information but does come with limitations. Choosing participants using a purposive method may affect the findings, because the results may not apply to all people. As the data was collected in a cross-section, our results do not tell us about why or how changes occurred. Furthermore, because people sometimes give social-approval answers, responses to trust and financial behavior questions may not be entirely true. Most of the study deals with India, so its outcomes cannot be generalized to other emerging economies without further study. In addition, only some shadow banking activities were looked at, so the full range of affecting elements may not be included in the analysis.

Further Research

Following a long-term design could help researchers study how consumer trust and financial inclusion develop over the course of regulatory or market changes. Including comparisons between cities and areas away from them or among groups of people would give a better understanding. Bringing in qualitative interviews could help us better appreciate the aspects of trust that arise because of both psychology and culture. More models could also study how reputation of the platform, how people use it and methods for handling complaints, as further kinds of moderators. Carrying out the research in more developing countries would support further refinement of the model in a wider range of fintech environments.

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