
ALGORITHMIC INFLUENCE AND CONSUMER PROTECTION: LEGAL CHALLENGES OF GENERATIVE AI IN DIGITAL MARKETS

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ABSTRACT

Generative Artificial Intelligence is transforming digital marketplaces through the fast delivery of content and the creation of highly customised advertisements and referrals for potential customers. While there are also many conveniences associated with these emerging technologies, there are also significant risks such as consumers being manipulated through algorithms, being exposed to misinformation, or being exploited based on their vulnerabilities. Often consumers do not realise the mechanisms that influence their purchasing decisions, raising the question of fairness, transparency, and accountability relative to AI driven transactions. This paper explores how generative AI affects consumer rights, identifying major challenges including; the opacity of algorithmic decision-making, digital deception, and information asymmetries. Through analysis of case studies and best practices around the world, this paper also identifies gaps in current protections and proposes a multi-faceted approach to protecting digital consumers that include; transparency, ethical design, accountability frameworks, and consumer education. Ultimately to ensure fairness and trust within AI driven marketplaces, there must be both technological solutions and proactive legal and regulatory strategies in place that can keep pace with the rapid advances of Generative Artificial Intelligence.

Keywords: Generative AI, Algorithmic influence, Consumer Protection, Digital Markets, Transparency.

I. INTRODUCTION

The growth of Generative AI is changing the way people experience products and services in India available online. As these tools create more content on e-commerce apps and services as well as in social media advertising, provide recommendations, and execute tailored marketing messages designed to connect with consumers, they impact many aspects of consumer decision-making without any noticeable differences between genuine human-created content versus that produced by AI. Although consumers benefit from the use of generative AI through increased ease-of-use, efficiency, and tailored offerings, there are new types of risks that arise when using these technologies. When consumers are unaware that the algorithms behind AI-driven tools influence the way they make purchasing decisions, these consumers may inadvertently be vulnerable to deceptions, exploitations, and undue influences derived from the unequal access to information that exists in digital markets today. Indian digital markets are characterized by a rapidly growing base of first-time internet users, mobile-first consumers, and a diverse socio-economic population.¹ In India, consumer protection in the digital space is governed primarily by the Consumer Protection Act, 2019, which extends the definition of goods and services to e-commerce platforms and explicitly recognizes unfair trade practices, misleading advertisements, and deficiencies in services.² The Act empowers the Central Consumer Protection Authority (CCPA) to investigate and take corrective action against unfair or deceptive practices in digital markets, making it a cornerstone framework for addressing algorithmic manipulation.³ Additionally, the Information Technology Act, 2000 provides safeguards against cyber fraud, unauthorized access, identity theft, and data misuse.⁴ Provisions such as Sections 43A and 66C emphasize the responsibility of intermediaries and service providers to maintain data security and protect consumers against technological exploitation.⁵

The National Consumer Dispute Redressal Commission observed that e-commerce marketplaces bear responsibility for consumer harm when algorithmic recommendations or listings lead to fraud.⁶ The Commission also held that deficient digital services that mislead or

¹ IAMAI, *Digital Consumer Report: India 2025* (Internet and Mobile Association of India 2025).

² Consumer Protection Act 2019 (India), ss 2(1)(r), 24, 26.

³ *Ibid.*

⁴ Information Technology Act 2000 (India), ss 43A, 66C.

⁵ *Ibid.*

⁶ *Nikhil Verma v Amazon India Pvt Ltd* (National Consumer Disputes Redressal Commission, 12 April 2022) para 45.

harm consumers fall within the scope of actionable consumer rights violations.⁷ Even in broader contexts of digital content, the Delhi High Court examined the role of search engines not merely as passive intermediaries but as entities that actively organize, rank, and present information through complex algorithms. The Court observed that such algorithmic curation has a significant impact on how users perceive information, thereby influencing consumer decision-making.⁸ In doing so, the Court implicitly acknowledged that digital platforms are not entirely neutral conduits but play a critical role in shaping online narratives and market behaviour.

This study explores the intricate connection between generative artificial intelligence (AI), algorithmic influence, and consumer advocacy within India's digital market. It examines the various risks associated with using AI-based personalized services; auto-generated content; and algorithms to recommend products that could lead to consumer manipulation, affect the decisions consumers make or reduce transparency in online purchases. The study evaluates the adequacy of India's current statutory and regulatory frameworks in addressing these emerging challenges. These frameworks include the 'Consumer Protection Act, 2019', which establishes mechanisms for redressal of unfair trade practices, misleading advertisements, and deficiencies in services delivered through digital platforms; the 'Information Technology Act, 2000', which addresses issues of cyber fraud, unauthorized access, and intermediary liability; and the evolving data protection norms, which impose obligations on digital service providers to ensure responsible collection, processing, and usage of consumer data.

II. ALGORITHMIC INFLUENCE AND CONSUMER BEHAVIOUR IN DIGITAL MARKETS

A. EMERGENCE OF GENERATIVE AI IN DIGITAL CONSUMER ECOSYSTEMS

Algorithmic decision-making forms the backbone of how generative AI has impacted digital consumer markets. Traditional marketing strategies used to create broad segments using human judgment; however, algorithmically driven systems can analyse very large volumes of data in real-time. This means that the algorithms can decide which products will be listed on the e-commerce homepage for each user, which promotions will be included in the advertising on

⁷ *Bajaj Allianz General Insurance Co Ltd v Mrigank Singh Chawla* (National Consumer Disputes Redressal Commission, 19 September 2021) para 32.

⁸ *Google LLC v Visakha Industries* (Delhi High Court, 11 March 2020) DHC 1288 [27]– [30].

social media, and many other actions based on the online behaviour and inferred preferences of consumers.⁹ The process of personalisation involves complex algorithms that weigh multiple factors, including browsing history, purchase patterns, search queries, geographic location, and social interactions.¹⁰ Digital marketplaces increase the effectiveness of their displays through personalisation, but this trend has raised new transparency and consumer autonomy issues. Consumers could be presented with a restricted view of content that prioritizes the platform's interests above the consumer's interests. For example, a person may view an "instant recommendation" of a potentially useful item because it is ranked according to an algorithm rather than the actual item being a value for them. Therefore, personalised recommendations may create opportunities for biasing and persuading consumers.¹¹

Digital platforms have changed dramatically due to generative AI, enabling the generation of a large volume of digital content at low costs. This change has resulted not only in greater diversity and access to digital content but also greater competition among users and firms creating that content. In addition, platforms now have the ability to curate, moderate and distribute digital content through artificial intelligence (AI) technologies, changing the overall governance structure and the nature of power relationships within the digital platform market. However, these changes have raised some concern relating to increased market concentration and the growing ability of AI-based intermediaries to shape consumer purchasing decisions.¹²

The transformation from simply consuming to actively engaging and creating through GenAI defined the parameters for the ecosystem. Consumers use AI-powered tools to create content, customize offerings, or tell their stories about brands. This process fosters a sense of emotional connection to the brand, increases engagement and builds a stronger, more resilient and interactive digital ecosystem. Additionally, this participatory model is consistent with a larger cultural shift towards collaboration and user-generated content.¹³ Generative AI has the ability to fundamentally change society - however, there are still many challenges that need to be overcome. There are multiple ways to implement the ethical standards and regulations needed

⁹ Virginia Dignum, *Responsible Artificial Intelligence* (Springer 2019) 48–73.

¹⁰ Luciano Floridi, *The Ethics of Artificial Intelligence* (OUP 2019) 90–116.

¹¹ *Google LLC v Visakha Industries* (Delhi High Court, 2020) [27]– [30].

¹² Y Zhang, 'The Influence of Generative AI on Content Platforms' (2024) <https://arxiv.org/abs/2410.13101> accessed 20 March 2026.

¹³ M Shah, 'Effectiveness of Generative AI in Fostering Consumer Engagement' (2025) *International Journal of Emerging Technologies*.

in order to ensure consumer trust and protect consumers' rights to ensure that we can create a "good" society through these technologies¹⁴

B. INFORMATION ASYMMETRY AND DARK PATTERNS IN AI SYSTEMS

The use of Generative Artificial Intelligence (GAI) in digital marketplaces has increased the likelihood of consumers and digital platforms being unequally informed about each other's actions, raising significant concerns about consumer protection. Information asymmetry occurs when platforms have better information than consumers about how algorithms work, how data will be used, and how decisions will be made. Generative AI further exacerbates this asymmetry because it works through complex and opaque algorithms that provide content recommendations, personalize content, and provide human reenactments. This means that consumers cannot tell what is generated by GAI vs what is generated by a natural person. The lack of transparency erodes informed consent and limits consumer autonomy, as consumers are being subtly directed toward specific choices without knowing how the decision-making process works.¹⁵ A closely related concern is the proliferation of "dark patterns," which refer to deceptive or manipulative design practices that influence consumer behaviour in ways that may not align with their best interests. Dark patterns have become more sophisticated with the advent of AI technologies and can now include personalised nudging, disguised ads, and persuasive content that leverages behavioural biases, thus further enhancing the effectiveness of these types of marketing behaviours through Generative AI (i.e., customised to each user in real-time). The introduction of AI systems into marketing has also led to more creative, harmful marketing tactics because they allow marketers to use persuasive techniques specifically designed for each individual consumer at that time, creating greater potential for manipulation, as well as for unfair commercial practises. Examples of this type of manipulation may include biasing the rankings or positioning of certain products, establishing phoney time-sensitive sales, or using deceptive reviews and endorsements to skew consumers' decision-making processes.¹⁶

These developments pose an unprecedented challenge to existing consumer protection laws from a legal standpoint. They were designed primarily to combat blatant false advertising and

¹⁴ Ibid.

¹⁵ M Wessel, 'Generative AI and Its Transformative Value for Digital Platforms' (2025) *Information Systems Research*.

¹⁶ Organisation for Economic Co-operation and Development (OECD), *Dark Commercial Patterns* (2022) <https://www.oecd.org/competition/dark-commercial-patterns.htm> accessed 20 March 2026.

unscrupulous business practices. These developments complicate the legal notions of liability, intent, and deception since AI systems are usually not transparent and lack explainability. This has led to an increase in the need for regulatory action aimed at addressing algorithmic opacity, requiring disclosure of AI-generated content, and prohibiting manipulative design practices on digital platforms. Legal protections in this domain need to be enhanced so that customers can once again achieve an equal amount of information about products and services and maintain more control over their decisions, all while ensuring that AI-related digital marketplaces function fairly.¹⁷

III. LEGAL FRAMEWORKS GOVERNING CONSUMER PROTECTION IN DIGITAL MARKETS

A. TRADITIONAL CONSUMER PROTECTION LAWS AND THEIR LIMITATIONS

Traditional consumer protection laws were primarily developed to regulate conventional market practices characterised by direct transactions, identifiable traders, and clear instances of misrepresentation or unfair conduct. The rise of generative AI in a digital marketplace has exposed significant deficiencies in the application of these regulatory frameworks. Current legal structures rely on principles of disclosure, informed consent and prohibiting misleading and dishonest conduct when consumers participate in a marketplace. Once a marketplace is driven by artificial intelligence, these same principles become increasingly difficult to uphold, due to the algorithms used to generate content, recommendations, and advertisements being highly personalised, as well as being complex and usually obscure or difficult for consumers to identify.¹⁸

A key challenge with generative AI is that traditional doctrines cannot sufficiently cover generative AI's lack of transparency and autonomy. Unlike human beings, generative AI produces output through complex machine learning processes that are not transparent or explainable, meaning that the laws around determining basic legal elements such as intent, causation, and liability—are inherently weakened because the operations of such systems cannot be determined. Therefore, if an AI system produces a misleading output that influences

¹⁷ European Commission, *Guidance on Unfair Commercial Practices Directive* (2021)

<https://commission.europa.eu> accessed 20 March 2026; M Panda, 'Understanding the Interplay Between Generative AI and Consumer Behaviour' (2026) *Journal of Electronic Commerce Research*.

¹⁸ UK Department for Business, Energy & Industrial Strategy, *Modernising Consumer Markets: Consumer Green Paper* (2018) <https://www.gov.uk> accessed 21 March 2026.

a consumer's behaviour, it will be impossible to determine where responsibility lies because many different organisations (i.e., developer, platform operator, data provider) were involved in the creation of that output. The diffusion of accountability due to the above issues creates a structural gap within consumer protection legislation that cannot effectively regulate decentralised and automated decision-making systems.¹⁹

B. APPLICABILITY OF DATA PROTECTION LAWS (GDPR AND INDIAN FRAMEWORK)

Privacy legislation is critical to the issues associated with generative AI in the global digital marketplace, in connection with collecting, handling, and utilizing personally identifiable information (PII) for algorithmic decision-making. Legal frameworks such as the European Union's General Data Protection Regulation (GDPR) create principles of lawfulness, fairness, transparency, limitation of purpose and minimization of data; principles that are particularly important when regulating AI-based systems. These principles create obligations for data controllers to process PII lawfully and transparently (i.e., individuals are made aware of the use and processing of their PII) when using PII to train or deploy AI models, as well as provide certain protections against the unregulated use of AI systems that could negatively impact consumer rights/interests, for instance, provisions dealing with automated decision-making and profiling; e.g., a consumer has the right not to be affected negatively by a decision based solely on automated decision-making.²⁰

The application of data protection laws to generative artificial intelligence faces a number of difficulties. In many cases, the way that generative A.I. is applied can make it extremely difficult to guarantee meaningful transparency and to obtain informed consent because of the complexity of the A.I. environment. This is done by using multiple data sources, including scraped or indirectly obtained sources, which makes it challenging for individuals to be aware of how their personal information has been utilised, and how they can effectively control it. Furthermore, as generative A.I. systems are very dynamic and adapt in different ways, this presents a number of compliance issues with respect to compliance with the principle of purpose limitation and data minimisation because the way data is being reused or constantly

¹⁹ Mireille Hildebrandt, *Law for Computer Scientists and Other Folk* (OUP 2020).

²⁰ Regulation (EU) 2016/679 (General Data Protection Regulation) arts 5, 6, 22.

processed constantly changes from the initial use.²¹

The Digital Personal Data Protection Act 2023 (DPDP) is the biggest advancement to date in India's digital economy with respect to data protection. Consent-based processing of digital data, limitation of purpose, as well as enhanced rights for data principals, including the right to access, correct and have their personal data deleted, are all integral components of this new legislation. The provisions included in the DPDP provide a basic framework for the regulation of AI-based data activities. Unfortunately, this legislation does not specifically address the unique risks posed by Generative AI (algorithmic profiling, automated content generation, large scale data training, etc.) This has resulted in gaps in areas such as explainability, accountability and the regulation of the harms associated with AI.²²

C. UNFAIR TRADE PRACTICES AND MISLEADING AI-GENERATED CONTENT

As there is now an abundance of generative AI in digital marketplaces it has created significant difficulties in terms of identifying and regulating unfair trade practices, especially involving misleading content generated by artificial intelligence. Conventional consumer protection law exists to prevent false representation, deceptive advertising and unfair commercial practices. The introduction of AI systems that can create realistic and persuasive content independently has created blurry lines between authenticity vs manipulation. The most common types of generative AI are producing product descriptions, reviews, endorsements and promotional materials that may look credible but are not a true representation of the product. The existence of generative AI increases the likelihood of consumers being deceived and erodes the confidence that consumers have in digital marketplaces.²³

One major issue is that AI develops personalised content for each person based on their current situation and produces content designed specifically for that purpose; consequently, it has the potential to subtly influence people's decisions as they shop. AI-generated content may not be misleading in terms of having an obvious falsehood, such as a traditional misleading ad, but it can still be deceptive in that it does not include all of the information needed to determine its

²¹ Sandra Wachter, Brent Mittelstadt and Luciano Floridi, 'Why a Right to Explanation of Automated Decision-Making Does Not Exist in the General Data Protection Regulation' (2017) 7 *International Data Privacy Law* 76.

²² Digital Personal Data Protection Act 2023 (India).

²³ Organisation for Economic Co-operation and Development (OECD), *Consumer Policy and Artificial Intelligence* (2019) <https://www.oecd.org> accessed 21 March 2026.

truth, as well as being exaggerated, and/or framed strategically. For example, algorithmically-generated reviews and/or endorsements create a false sense of agreement and/or credibility amongst other people; and synthetic influencers/deepfake technologies create an experience that makes it difficult for the consumer to distinguish between a normal human being and an artificially-promoted person. All of these types of behaviour disrupt the current legal framework, as they are designed to capture only misrepresented information.²⁴

Frameworks created from a regulatory standpoint include the prohibition of unfair trade acts under consumer protection law, which provide a basis for the regulation of misleading content generated by artificial intelligence. While India's Consumer Protection Act 2019 prohibits misleading advertisements as well as acts of unfair trade practice, the European Union's "UCPD" (Unfair Commercial Practices Directive) makes it unlawful to carry out practices that have the effect of distorting a consumer's economic behaviour. However, the applicability of these frameworks to generative forms of AI remains unclear, primarily due to the difficulty in determining liability for misleading practices when those practices are created dynamically or when the content continually evolves.²⁵

Additionally, the rapid and massive content production of generative AI creates considerable enforcement challenges. Traditional regulatory systems use the identification and remedying of violations after they are committed, which may not be adequate in today's environment where there is the ability to create and distribute deceptive content to large audiences instantaneously. Therefore, a shift to proactive regulation is needed by creating new requirements for disclosing AI-generated material, with stricter guidelines for digital advertising, as well as increasing platform accountability through their responsibility for monitoring and controlling the use of deception. These changes are vital to maintaining effective consumer protection laws against the many risks involved in generative AI's effect on digital commerce.²⁶

IV. ETHICAL AND REGULATORY CHALLENGES OF GENERATIVE AI

Generative artificial intelligence's rapid integration into digital markets has raised numerous

²⁴ European Commission, *Behavioural Study on Advertising and Marketing Practices in Online Social Media* (2018) <https://commission.europa.eu> accessed 21 March 2026.

²⁵ Consumer Protection Act 2019 (India); Directive 2005/29/EC concerning Unfair Business-to-Consumer Commercial Practices (Unfair Commercial Practices Directive).

²⁶ Cary Coglianese and Alicia Lai, 'Antitrust and Artificial Intelligence: The Role of Regulation in the AI Economy' (2020) 100 *Boston University Law Review* 1983.

ethical and regulatory issues that go beyond the bounds of the traditional legal framework. One of the most crucial areas of concern with generative AI is algorithmic bias and discrimination. This is because AI is frequently trained on large data sets that may contain or reflect pre-existing socio-economic disparities. Thusly, transparency and fairness concerns arise when generative AI inadvertently reinforces existing or creates new discriminatory patterns. As a result, many consumers will experience unequal treatment from their suppliers due to the impact of generative AI upon the algorithmic methodology used to process consumer data. Fairness and non-discrimination are arguably two of the most important principles of consumer protection and regulatory governance.²⁷

The other major obstacle is having little to no clarity or knowledge regarding what goes on inside an AI system. The majority of current generative AI systems are built using deep learning algorithms, which typically function like a "black box," meaning it is extremely difficult for anyone to determine how or why the technology has produced any given output (i.e., a result). As a result, it makes it hard for a company or the law enforcement agencies to hold the generator of the output accountable, therefore complicating the process of enforcing legal and regulatory standards that would ordinarily protect users from harmful or misleading content. Furthermore, without an adequate explanation of the reasoning behind an output, it is nearly impossible for users to make informed decisions about whether or not to use the technology given the wide variety of possible outputs generated by that technology.²⁸

Privacy and data protection issues also remain a key point of discussion when talking about the ethics of generative AI. As a matter of fact, generative AI technologies require access to tremendous amounts of personal data to function, yet this is usually done without the consent and even knowledge of the individual. Data exploitation, surveillance, and self-determination are some of the issues that arise in this context. While data protection regulations offer a few guarantees, they may not suffice, especially when talking about secondary data usage and data aggregation.²⁹

From a regulatory point of view, these challenges underscore the need to have a more complex and flexible regulatory regime. The current state of the law is reactive and fragmented, which

²⁷ OECD, *Artificial Intelligence in Society* (2019) <https://www.oecd.org> accessed 21 March 2026.

²⁸ Frank Pasquale, *The Black Box Society: The Secret Algorithms That Control Money and Information* (Harvard University Press 2015).

²⁹ Tal Zarsky, 'Incompatible: The GDPR in the Age of Big Data' (2017) 47 *Seton Hall Law Review* 995.

makes it less effective in dealing with the constantly evolving nature of generative AI technology. There is now a consensus on the need to have a more proactive regulatory regime, which is based on the principles of transparency, accountability, fairness, and humanity. This would not only reduce the risk but would also help to unlock the full potential of generative AI technology without undermining the rights and interests of consumers.³⁰

V. COMPARATIVE REGULATORY APPROACHES

Significantly different approaches can be seen in the regulation of generative artificial intelligence in digital markets. The approaches are shaped by different legal traditions, different priorities in public policies, and different degrees of technological advancement. A comparative analysis of the approaches in the European Union, the United States, and India shows both convergences and divergence in dealing with the challenges to consumer protection by AI-driven systems. All three approaches have noted the challenges posed by algorithmic decision-making, but there are differences in their approaches.

A. EUROPEAN UNION: AI ACT AND CONSUMER PROTECTION

The European Union has implemented a holistic and forward-thinking strategy to govern the development of artificial intelligence, mainly through the proposed Artificial Intelligence Act, which outlines a risk-based approach to the governance of artificial intelligence. The proposed Act categorizes artificial intelligence systems according to their risk to fundamental rights, imposing strict measures on high-risk systems. Furthermore, existing measures such as the General Data Protection Regulation (GDPR) and the Unfair Commercial Practices Directive (UCPD) provide a supportive structure to govern the development of artificial intelligence, addressing issues such as data protection, automated decision-making, and commercial practices. This is a testament to the EU's commitment to fundamental rights, consumer protection, and the development of responsible artificial intelligence.³¹

B. UNITED STATES: SECTORAL AND MARKET-BASED REGULATION

In contrast to the comprehensive approach of the EU, the United States follows a more

³⁰ European Commission, *Ethics Guidelines for Trustworthy AI* (High-Level Expert Group on AI, 2019).

³¹ European Commission, *Proposal for a Regulation Laying Down Harmonised Rules on Artificial Intelligence (Artificial Intelligence Act)* COM/2021/206 final; Regulation (EU) 2016/679 (General Data Protection Regulation); Directive 2005/29/EC concerning Unfair Business-to-Consumer Commercial Practices.

fragmented approach in its sector-specific regulatory policy. Consumer protection in the digital economy is regulated mainly through organizations such as the Federal Trade Commission (FTC). They follow their mandate to prevent unfair or deceptive acts or practices. Although this approach is flexible, enabling a high degree of adaptability, it is also seen to create a void in addressing systemic risks in the development of generative AI.³² Recent policy initiatives, such as guidelines on the development of responsible AI, highlight a shift in the understanding of the need to create a more structured approach to regulation, but the lack of a federal law on AI creates a void in the effectiveness of such regulatory measures.³³

C. INDIA: EMERGING DIGITAL AND AI REGULATORY FRAMEWORK

Currently, the Indian regulatory framework for generative AI is in a developmental stage, focusing on enhancing the efficacy of digital governance and consumer protection in the face of technological advancements. The legislative framework, including the Digital Personal Data Protection Act 2023 and the Consumer Protection Act 2019, has laid a foundation for dealing with data privacy and consumer trade practices. At the same time, policy initiatives and guidelines by governmental bodies demonstrate a heightened understanding of the importance of regulating AI technologies. The lack of a regulatory framework for AI has created difficulties in effectively managing AI-related challenges such as algorithmic accountability and transparency. As the Indian digital economy continues to grow, it is imperative that a comprehensive and forward-looking regulatory framework be adopted.³⁴

D. NEED FOR HARMONISED GLOBAL STANDARDS

This divergence in the way in which AI is being regulated in different jurisdictions points to the need for increased international coordination and harmonisation in the governance of AI. This is in light of the fact that the market for AI is borderless, and as such, the deployment of generative AI systems has gone global, which means that inconsistent regulatory standards may give rise to consumer protection and regulatory arbitrage issues. International organisations and collaborative initiatives are increasingly recognising the need for the establishment of

³² Federal Trade Commission Act 1914, 15 USC Ss 41–58; Federal Trade Commission, *Bringing Dark Patterns to Light* (2022); Daniel J Solove and Woodrow Hartzog, ‘The FTC and the New Common Law of Privacy’ (2014) 114 *Columbia Law Review* 583.

³³ *Ibid.*

³⁴ Digital Personal Data Protection Act 2023 (India); Consumer Protection Act 2019 (India); NITI Aayog, *Responsible AI for All: National Strategy for Artificial Intelligence* (2018).

common principles and standards, especially in relation to transparency, accountability, and ethical AI usage, among other areas, which would not only improve the effectiveness of the regulatory framework in AI governance but also facilitate AI innovation while protecting consumer rights.³⁵

VI. STRENGTHENING CONSUMER PROTECTION IN THE AGE OF GENERATIVE AI

Considering the increasing trend of the incorporation of generative AI in digital markets, there is a need to reassess and strengthen the current framework of consumer protection. Although conventional legal instruments form a sound foundation, there is a need to make them more responsive to the challenges of AI-based systems in which algorithmic decision-making, data exploitation, and AI-generated content have a prominent place. A multi-dimensional strategy of regulatory development, capacity development, and participation is required to effectively safeguard the interests of consumers in the face of these challenges.

A. REGULATORY REFORMS AND POLICY RECOMMENDATIONS

A major area of focus is the formulation of specific regulatory guidelines related to the use of AI, which can work in conjunction with existing consumer protection laws. These guidelines must address issues such as risk-based approaches, which are part of the new global standard, along with specific requirements related to transparency, explainability, and accountability in the use of AI. There is a need to ensure the mandatory disclosure of AI-generated content, along with specific guidelines related to the regulation of algorithmic decision-making processes, in order to avoid any kind of consumer deception or manipulation. There is a need to formulate specific legal provisions related to issues such as liability in the case of harm caused by AI systems.³⁶

B. ENHANCING CONSUMER AWARENESS AND DIGITAL LITERACY

Another aspect of enhancing consumer protection is the need to empower the consumer with the ability and knowledge to effectively engage in the digital environment, where AI plays a

³⁵ OECD, *Recommendation of the Council on Artificial Intelligence* (2019); UNESCO, *Recommendation on the Ethics of Artificial Intelligence* (2021).

³⁶ European Commission, *Proposal for a Regulation Laying Down Harmonised Rules on Artificial Intelligence (Artificial Intelligence Act)* COM/2021/206 final; OECD, *Recommendation of the Council on Artificial Intelligence* (2019).

crucial role. For instance, digital literacy programmes need to be designed in a manner that enables the consumer to understand the nature and operation of generative AI, the potential threats associated with algorithmic influence, and the ability to identify misleading and manipulative content. This would help the consumer make more informed decisions and reduce the potential threats associated with such practices. It is in this respect that public awareness campaigns and educational programmes have the potential to contribute significantly to the creation of a more empowered consumer base.³⁷

C. ROLE OF SELF-REGULATION AND CORPORATE RESPONSIBILITY

In addition to this, self-regulation of the industry stakeholders is equally important to ensure the effective regulation of AI systems. Technology companies and technology platforms must adopt ethical guidelines, internal compliance systems, and best practices that focus on consumer protection. These may include the conduct of algorithmic impact assessments, mitigation of bias, and transparency in AI systems. Corporate accountability may be achieved through independent audits, certification systems, and international ethical standards. Such an approach, in addition to regulation, will help to build trust among stakeholders while encouraging companies to comply with regulations proactively.³⁸

CONCLUSION

The rise of generative artificial intelligence has greatly impacted the digital market, changing consumer behaviour, market dynamics, and the way people engage with one another online. Although generative artificial intelligence has increased efficiencies, personalisations, and innovations, it has also posed a number of intricate issues, including algorithmic influence, information asymmetry, and consumer vulnerability. The increased usage of artificial intelligence systems has made the distinction between persuasion and manipulation less clear, thus sparking a number of issues concerning consumerism.

This paper has emphasized that current frameworks for consumer protection are becoming less effective in dealing with the special risks associated with generative AI. The usual approaches to dealing with various types of legal challenges are less effective in dealing with AI challenges.

³⁷ OECD, *Consumer Policy and Artificial Intelligence* (2019) <https://www.oecd.org> accessed 21 March 2026.

³⁸ UNESCO, *Recommendation on the Ethics of Artificial Intelligence* (2021); World Economic Forum, *Ethical and Responsible Use of AI* (2022).

For example, issues of algorithmic bias, transparency, misinformation, and dark patterns have indicated a number of gaps in current approaches to dealing with AI challenges. Further, it can be noted from the analysis provided in this paper that there are differences in approaches to dealing with AI challenges in various jurisdictions. Some have developed a more structured approach to dealing with AI challenges, while others are still relying on fragmented approaches.

Ultimately, to effectively overcome the challenges of generative AI, a holistic and forward-thinking strategy that balances legal, ethical, and technological dimensions of accountability must be implemented. The way forward for consumer protection in this context, therefore, lies in the creation of a transparent, accountable, and human-centric framework of regulation that protects consumer rights while encouraging technological advancement, with fairness and trust being the guiding principles for a sustainable marketplace.