

The Effectiveness and Urgency of Strengthening Fintech Lending Regulations for Consumer Protection in Indonesia

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Abstract

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The rapid development of fintech lending services in Indonesia has had a dual impact: on the one hand, it has encouraged financial inclusion for communities not yet covered by conventional banking, but on the other hand, it has given rise to various legal issues that are detrimental to consumers. The government has issued several regulations, including POJK Number 77/POJK.01/2016, POJK Number 6/POJK.07/2022, Law Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector (PPSK), and Law Number 27 of 2022 concerning Personal Data Protection. However, the rise of illegal fintech, non-transparent interest rates, and misuse of personal data indicate that existing regulations are not yet fully effective. This study uses normative legal methods with statutory, conceptual, and systematic approaches to analyze the effectiveness of fintech lending regulations in providing legal protection for consumers; and the urgency of strengthening these regulations in the face of the dynamics of digital financial services. The results show that the existing regulatory framework still faces obstacles in law enforcement, limited oversight, overlapping authorities, and low public digital literacy. Therefore, strengthening fintech lending regulations is an urgent need to ensure legal certainty and optimal consumer protection in the digital economy era.

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1. Introduction

Digital transformation in the financial sector has given birth to a technology-based financial services ecosystem known as financial technology or fintech. Among various fintech segments, information technology-based money lending services or fintech lending (peer-to-peer lending/P2P lending) have experienced the fastest growth in Indonesia. These services are a significant alternative to financing, especially for unbankable groups who do not have access to conventional banking services (Salvasani & Kholil, 2020). The presence of fintech lending has significantly contributed to the acceleration of national financial inclusion, as mandated in various Indonesian economic development policies. This development also reflects a broader shift in how financial services are accessed in the digital economy. Consequently, fintech lending has become an important instrument in expanding credit distribution to underserved communities.

Although it brings benefits to financial inclusion, the rapid development of fintech lending has also raised various serious legal problems. There are at least three main problems faced by consumers: first, the rise of illegal fintech lending providers operating without Financial Services Authority (Otoritas Jasa Keuangan/OJK) permission; second, the practice of setting high and non-transparent interest rates; and third, the misuse of borrowers' personal data by irresponsible operators (Novita & Imanullah, 2020). This condition creates significant legal vulnerabilities for consumers, especially those who have limited financial and digital literacy. These issues indicate that consumer protection mechanisms have not yet kept pace with the rapid innovation in the fintech sector.

In response to these developments, the government and OJK have issued a number of regulations. The primary legal framework that regulates fintech lending includes POJK Number 77/POJK.01/2016 concerning Information Technology-Based Money Lending Services, which was later strengthened by POJK Number 6/POJK.07/2022 concerning Consumer and Community Protection in the Financial Services Sector. In addition, Law Number 4 of 2023 concerning the Development and Strengthening of the Financial Sector (PPSK) and Law Number 27 of 2022 concerning Personal Data Protection also strengthen the normative foundation of consumer protection in the digital financial sector (Njatrijani, 2019). These regulatory instruments collectively aim to create a safer and more accountable fintech ecosystem in Indonesia.

However, the existence of these various regulations has not been able to optimally overcome the problems that occur in the field. OJK data shows that thousands of illegal fintech applications have been successfully blocked, but continue to re-emerge in increasingly diverse modes. This indicates ineffectiveness in the implementation and enforcement of applicable regulations (Poernomo, 2022). This is where the main problem of this study lies: regulations already exist, but they are not yet fully effective in protecting consumers from various infringing practices committed by fintech lending providers. This gap between regulation and enforcement underscores the need for a more effective supervisory and enforcement framework.

Based on this background, this study formulated two research questions, namely: (1) How effective is fintech lending regulations in Indonesia in providing

legal protection to consumers? and (2) Why is strengthening fintech lending regulations an urgency in facing the development of digital financial services in Indonesia? The purpose of this study is to analyze the effectiveness of existing fintech lending regulations and examine the urgency of strengthening regulations to optimize consumer protection in the digital era.

2. Methods

This research is normative legal research, which focuses on the study of positive legal norms, legal principles, and legal doctrines to address the legal issues examined (Peter, 2014). Normative legal research was chosen because the object of this study consists of laws and regulations as well as legal concepts related to fintech lending regulation and consumer protection in Indonesia. This approach is considered appropriate to critically assess the adequacy and effectiveness of the existing legal framework.

The approach used in this study includes three complementary approaches. First, the statute approach, which examines all relevant laws and regulations, including POJK Number 77/POJK.01/2016, POJK Number 6/POJK.07/2022, the Consumer Protection Law, the ITE Law, the Personal Data Protection Law, and Law Number 4 of 2023 concerning PPSK. Second, the conceptual approach, which employs legal concepts such as consumer protection, legal effectiveness, and digital regulatory governance as an analytical framework. Third, the systematic approach, which examines fintech lending regulations as an integrated legal system to ensure coherence among legal instruments.

The legal materials used consist of primary and secondary legal materials. Primary legal materials include laws and regulations related to fintech lending and consumer protection. Secondary legal materials include scientific law journals, legal textbooks, scientific articles, and official reports from the OJK and related institutions published between 2018 and 2023. The collection of legal materials is conducted through library research by accessing various indexed scientific journal databases, including Google Scholar, to ensure the relevance and credibility of the sources used.

The analysis of legal materials is carried out in a descriptive-qualitative manner, namely by describing and analyzing in depth the applicable legal norms, identifying the gap between *das sollen* (the law as it ought to be) and *das sein* (the law in practice), and formulating constructive juridical recommendations. This approach enables a comprehensive and systematic analysis of the effectiveness of fintech lending regulations and highlights the urgency of strengthening consumer protection within Indonesia's digital financial ecosystem.

3. Results

3.1. Effectiveness of Fintech Lending Regulations in Consumer Protection

The legal regulation of fintech lending in Indonesia has historically started with the issuance of POJK Number 77/POJK.01/2016 as the first regulation that specifically accommodates information technology-based lending and borrowing services. This regulation requires every P2P lending provider to register and obtain permission from the OJK, set loan limits, and regulate basic protection mechanisms

for borrowers and lenders. Furthermore, POJK Number 13/POJK.02/2018 concerning Digital Financial Innovation (Inovasi Keuangan Digital/IKD) was issued as a regulatory umbrella for the broader fintech ecosystem, including a regulatory sandbox mechanism for new fintech business models (Njatrijani, 2019). The improvement of consumer protection regulations was then carried out through POJK Number 6/POJK.07/2022 which emphasizes the rights of consumers and the obligations of financial services business actors. This regulatory evolution shows a gradual effort by regulators to adapt to the rapid growth of digital financial services. It also reflects the increasing complexity of fintech activities that require more comprehensive legal oversight.

The OJK as the main authority for the supervision of the financial services sector plays a central role in the fintech lending regulatory ecosystem. Normatively, the OJK is authorized to license, supervise, audit, and take action against fintech lending operators. In carrying out its supervisory function, the OJK established the Investment Alert Task Force (SWI) which functions as a coordination forum across ministries and institutions to handle cases of illegal fintech and fraudulent investments (Salvasani & Kholil, 2020). OJK also develops Supervisory Technology (SupTech) to increase the effectiveness of technology-based supervision of digital financial services industry players. These institutional mechanisms are designed to strengthen preventive and corrective supervision in the fintech sector. However, their effectiveness still depends on inter-agency coordination and technological readiness.

Normatively, fintech lending regulations in Indonesia have provided three layers of legal protection for consumers. The first layer is protection through information transparency, where the organizer is required to clearly disclose the amount of interest, fees, risks, and terms of the agreement to prospective borrowers before the transaction is made. The second layer is personal data protection, which is emphasized by the enactment of Law Number 27 of 2022 concerning Personal Data Protection, which regulates the rights of data subjects, the obligations of data controllers, and sanctions for data confidentiality violations (Novinna, 2020). The third layer is the consumer complaint mechanism, where POJK requires each organizer to provide a complaint channel that can be accessed by consumers who feel aggrieved. These layers are intended to create a structured protection system for fintech users. Nevertheless, their implementation still faces challenges in practice due to varying levels of compliance among providers.

Although the above regulatory framework seems normatively comprehensive, the reality on the ground shows a much different picture. The implementation facts show that illegal fintech continues to proliferate in increasingly sophisticated modes. The OJK noted that thousands of illegal online loan applications were successfully blocked, but were soon replaced by similar applications that operated with different identities. In addition, cases of violations of billing ethics in the form of terror, intimidation, and the dissemination of borrowers' personal data to their contacts are still often reported by the public (Poernomo, 2022). The leakage of personal data of fintech users has also become a recurring problem, with several major cases emerging to the public. This situation indicates that enforcement mechanisms have

not fully adapted to the dynamic nature of digital financial crime. It also reflects the need for stronger cross-border and platform-based regulatory control.

A critical analysis of these conditions reveals at least four factors that cause the ineffectiveness of regulations. First, weak law enforcement against violators, where the sanctions imposed often do not have an adequate deterrent effect (Shalmon & Dominica, 2022). Second, the OJK's limited supervisory capacity, especially in monitoring thousands of applications that continue to emerge in the digital ecosystem. Third, the overlap of authority between agencies between the OJK, Bank Indonesia, the Ministry of Communication and Information, and law enforcement officials which hinders coordination and rapid response to violations. Fourth, the low financial and digital literacy of the public causes many consumers to be unable to distinguish official organizers from illegal ones, making them easy to fall victim to (Budiyanti, 2019). These factors collectively illustrate that the problem is not only regulatory in nature but also institutional and societal. Therefore, addressing ineffectiveness requires a multidimensional reform approach.

Thus, it can be emphasized that fintech lending regulations in Indonesia, although they have a fairly broad scope normatively, are not yet fully effective in providing legal protection to consumers. The gap between the provisions of the regulation (*das sollen*) and the reality of its implementation (*das sein*) is still very significant. This condition requires serious attention from policymakers, regulators, and other stakeholders in order to realize a healthy, fair, and consumer protection-oriented fintech lending ecosystem. Strengthening enforcement mechanisms and inter-agency coordination becomes a crucial step to bridge this gap. Without such

improvements, the existing regulatory framework risks remaining largely normative rather than effective in practice.

3.2. Urgency of Strengthening Fintech Lending Regulations in Consumer Protection

The development of digital financial technology is taking place at a speed far beyond the ability to adapt to regulations. Fintech innovations such as artificial intelligence in credit assessment, big data analytics for borrower profiling, and Buy Now Pay Later (BNPL) business models continue to emerge and create new risk dimensions that have not been fully anticipated by the existing regulatory framework (Suryono et al., 2020). This condition creates a regulatory gap, namely a regulatory gap or lag in responding to the dynamics of technology that moves very quickly. This gap indicates that regulatory instruments are often reactive rather than anticipatory. As a result, lawmaking processes struggle to keep pace with technological innovation in the financial sector.

New, more complex risks continue to develop as the adoption of fintech lending expands. In the context of personal data protection, the ability of fintech providers to massively access, process, and analyze user data creates potential misuse that is not yet fully accessible to existing data protection regulations. Meanwhile, non-transparent credit scoring algorithm models can create systemic discrimination in lending without consumer knowledge (Zulkifli, 2022). Such risks require a more adaptive, technology-based, and protection-oriented regulatory response. These developments also highlight the need for algorithmic governance within financial

regulation. Without such adaptation, regulatory frameworks risk becoming obsolete in addressing emerging digital risks.

The negative impact of weak consumer protection in the fintech lending sector is not limited to financial losses alone. Various studies have documented the serious social and psychological impacts of aggressive collection practices by illegal fintechs, including: severe psychological distress, disruption of social relations due to the dissemination of personal data to borrowers' families and colleagues, to suicide cases allegedly triggered by illegal loan debt entanglement (Shalmont & Dominica, 2022). These impacts confirm that weak fintech lending regulations are not just a civil law issue, but have developed into issues that touch on human rights aspects. This demonstrates that fintech regulation must also consider psychological and social dimensions of consumer protection. Therefore, legal protection in this sector should be viewed as part of broader human dignity safeguards.

The limitations of existing regulations in responding to technological dynamics are manifested in several aspects. First, POJK Number 77/POJK.01/2016, which is the parent regulation of fintech lending, is considered no longer adequate to accommodate the complexity of the current developing P2P lending ecosystem, so it requires comprehensive revision or replacement. Second, the maximum limit of interest and loan fees set in the Indonesian Joint Funding Fintech Association (Asosiasi Fintech Pendanaan Indonesia/AFPI) rules does not yet have formally binding legal force in laws and regulations, so compliance still depends on the self-regulation mechanism. Third, the existing consumer complaint mechanism has not been effectively integrated, so aggrieved consumers often do not

know the right path to recovery (Novinna, 2020). These weaknesses show fragmentation in the regulatory structure governing fintech lending. As a result, legal protection becomes inconsistent and varies across platforms.

The urgency of strengthening fintech lending regulations can be based on at least three fundamental reasons. First, consumer protection, which is not optimal, requires regulatory reform that is more in favor of the interests of borrowers as the most vulnerable parties in the P2P lending ecosystem. Second, legal certainty is a prerequisite for the growth of public trust in the legal fintech lending industry, so that people no longer turn to illegal operators who are more accessible but much riskier (Pawestri et al., 2023). Third, the stability of the financial system as a whole is also at stake if the fintech lending ecosystem is allowed to develop without an adequate supervision and enforcement framework. These three aspects collectively show that regulatory strengthening is not optional but necessary. Without it, systemic risks in the financial sector may continue to increase.

The direction of strengthening regulations that need to be taken includes several dimensions. In terms of substantive regulations, it is necessary to revise and update rules that are adaptive to technological developments, including explicit regulations on algorithmic accountability, legally binding interest limits, and stricter data security standards. From an institutional perspective, it is necessary to strengthen the supervisory capacity of the OJK through the use of RegTech and SupTech, as well as improve cross-agency coordination mechanisms to close the supervision gap. The integration of fintech lending regulations with the personal data protection framework based on Law Number 27 of 2022 also needs to be realized

operationally immediately (Noor et al., 2023). In addition, firm and consistent enforcement of illegal fintech must be accompanied by a massive and sustainable digital financial literacy education campaign for the public. These measures require coordinated policy implementation across multiple stakeholders. Only through such an integrated approach can regulatory effectiveness be improved.

Thus, strengthening fintech lending regulations is not just a reactive response to problems that have occurred, but a proactive investment in building an inclusive, safe, and sustainable digital financial ecosystem. The urgency of strengthening this regulation is increasingly undeniable considering the projected growth of the fintech lending industry that continues to increase, so that the potential negative impact on unprotected consumers will be greater if the gaps and weaknesses of existing regulations are not immediately addressed comprehensively. This reinforces the importance of anticipatory regulation in the digital financial sector. In the long term, such reforms are essential to ensure that financial innovation remains aligned with legal protection and social welfare objectives.

4. Conclusion

Based on the results of the analysis of the fintech lending regulatory framework in Indonesia and its implementation in consumer law protection, this study produces two main conclusions that are interrelated.

First, fintech lending regulations in Indonesia have not been fully effective in providing legal protection for consumers. Normatively, the existing legal frameworks starting from POJK Number 77/POJK.01/2016, POJK Number

6/POJK.07/2022, the Personal Data Protection Law, to the PPSK Law have provided a fairly comprehensive foundation for protection, including aspects of information transparency, personal data protection, and consumer complaint mechanisms. However, the persistence of illegal fintech issues, violations of billing ethics, and personal data leakage indicate a significant gap between normative provisions and the reality of implementation. Factors that cause this ineffectiveness include weak law enforcement, limited OJK supervisory capacity, overlapping authority between institutions, and low public digital financial literacy.

Second, strengthening fintech lending regulations is an urgency that cannot be postponed in the face of the development of the digital financial ecosystem in Indonesia. The speed of technological innovation that exceeds the adaptability of regulations creates a regulatory gap that is exploited by irresponsible organizers, with victims who not only suffer financial losses but also serious social and psychological impacts. This urgency is based on three fundamental arguments: the need to optimize consumer protection, the need to provide legal certainty for all stakeholders, and the obligation to maintain the stability of the national financial system.

Based on these two conclusions, this study recommends three policy agendas that need to be followed up immediately. First, the government and OJK need to make comprehensive revisions to existing fintech lending regulations, especially POJK Number 77/POJK.01/2016, to accommodate the latest technological developments, set legally binding interest limits, and clarify security standards and user data processing. Second, strengthening the OJK's supervisory capacity must be

carried out simultaneously, both through increasing human resources and budget, developing RegTech and SupTech infrastructure, as well as improving coordination with relevant institutions such as Kominfo, Bareskrim, and BSSN in dealing with illegal fintech. Third, investment in public digital financial education and literacy programs must be significantly increased, considering that the effectiveness of regulations will be limited if consumers do not have the capacity to protect themselves in the digital financial ecosystem. These three policy agendas need to be implemented synergistically and sustainably so that the protection of fintech lending consumers in Indonesia can be realized in a real and optimal manner.

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