



# Strengthening Risk Management Principles in the Fintech Ecosystem for MSME Empowerment in the Digital Economy Era

Iis Yulita Nur Fitriastuti<sup>1</sup>

<sup>1</sup> STIE Widya Wiwaha, Yogyakarta, Indonesia

---

## Abstract

### Article history:

Received: July 8, 2022

Revised: August 27, 2022

Accepted: October 12, 2022

Published: December 30, 2022

---

### Keywords:

Digital Economy,  
Fintech,  
Law,  
MSMEs,  
Risk Management.

---

### Identifier:

Zera Open

Page: 171-187

<https://zeraopen.com/journal/rmi>

The transformation of the digital economy has significantly reshaped the global financial landscape, introducing technological innovations such as equity crowdfunding that expand financing access for micro, small, and medium enterprises. Through these digital platforms, entrepreneurs can obtain direct funding from the public without relying solely on conventional financial institutions, which often impose stringent requirements. This phenomenon reflects a paradigm shift from traditional financing systems toward more participatory, inclusive, and technology-driven models. This study aims to analyze the application of risk management principles in digital financial services to establish a financing system that is safe, transparent, and sustainable. Employing a qualitative descriptive approach based on scholarly literature from the past five years, this research emphasizes the importance of principle-based regulation, investor protection, and adaptive internal governance. The findings reveal that the effectiveness of fintech regulation is strongly influenced by cross-authority collaboration and the consistent application of transparency and accountability principles. The study recommends synergy among regulators, industry players, and society to strengthen risk management and foster an inclusive, innovative, equitable, and long-term oriented digital financial ecosystem.

---



## **1. Introduction**

In recent years, the transformation of the digital economy has encouraged the growth of technology-based alternative financing models, which open up new opportunities, especially for micro, small, and medium enterprises (MSMEs). In the midst of limited access to traditional banking, digital finance platforms such as fintech and crowdfunding offer alternative financing channels that are more flexible and inclusive (Zhang-Zhang et al., 2020). However, along with these opportunities come major challenges related to risk management, regulation, and investor protection. This study aims to investigate how risk management principles can be regulated in the context of technology-based equity crowdfunding, with a broader perspective and globally and nationally relevant until 2022. Digital transformation in the financial sector is not just the adoption of technology, but a change in market structure and institutional behavior. Fintech introduced the decentralization of financial services, which changed the basic assumptions of traditional financial regulation. Magnuson (2018) emphasized that the new nature of fintech: flexible, distributed, and innovative poses regulatory challenges that cannot be answered with the old framework alone, as risks are diffuse and large institutions are no longer the only source of systemic risk.

Meanwhile, in the realm of crowdfunding, this phenomenon has become an important part of the alternative financing ecosystem. Crowdfunding, especially equity crowdfunding, allows MSMEs or startups to raise capital from a wide audience, not just formal financial institutions. However, this model is prone to information asymmetry, moral hazards, misappropriation of funds, and liquidity

risks. Crowdfunding theories show that signaling mechanisms, investor oversight, and platform design are crucial to mitigate these risks (Belavina et al., 2020). Within the regulatory framework, many countries and international institutions have tried to respond to the growth of fintech and crowdfunding through policy adjustments. For example, the OECD formulated a regulatory framework for loan-based crowdfunding platforms, emphasizing the need for proportionate and flexible regulation so that innovation is not stifled, but still maintains financial stability and consumer protection. This kind of regulation shows that risk management in fintech cannot be a “one-size-fits-all” nature, but must adapt to product characteristics and risk complexity.

In the Indonesian context, Bahtiar et al. (2021) discuss how risk management rules need to be designed in IT-based stock offerings (equity crowdfunding) to support the development of MSMEs. They highlighted that legal aspects, investor protection, and risk governance must be drafted so that this digital financing model does not become a loophole for capital abuse practices or investor losses. Although research has made important contributions in the national context, there are still gaps in the literature regarding the application of risk management in fintech and crowdfunding with contextual and comparative regulatory approaches. Several cross-border studies have shown that crowdfunding regulations in Europe such as the Regulation on European Crowdfunding Services (ECSPR) aim to provide a cross-border framework for financial innovation to develop harmoniously between member countries. This kind of regulation illustrates how risk management and

policy can be directed to encourage financial inclusion, while still safeguarding the interests of investors.

In the course of innovation, regulations that are too rigid can curb creativity and growth of fintech, while regulations that are too loose can open the door to systemic failure or fraud (Yadav & Brummer, 2019). Therefore, the study places a focus on the balance between maintaining innovation and mitigating risks through a risk management framework applied to technology-based stock offerings. This research will answer the question: how can risk management rules be formed so that digital capital offerings through fintech platforms support the development of MSMEs while still being safe for investors? For this reason, this study uses a qualitative-descriptive approach to literature and regulatory documents (including journals, fintech rules, policy documents) as the main source. Through a critical analysis of theory, international and national regulations, and best practices, this study aims to produce recommendations for risk management principles that are applicable and contextual for digital financing (especially equity crowdfunding). The results of the research are expected to contribute theory and policy to develop a regulatory framework that supports the growth of technology-based MSMEs in a safe and sustainable manner.

## **2. Literature Review**

### **2.1. Risk Management Theory and Model in Fintech**

Risk management is a fundamental component in maintaining the sustainability of the fintech ecosystem. In the context of the digital economy, risks

arise not only from market volatility, but also from technological factors, data security, and user behavior. According to ISO 31000:2018, the risk management process includes the identification, analysis, evaluation, and mitigation of risks that may threaten an organization's objectives. This principle is relevant for the digital finance industry because most data-driven transactions and electronic systems are vulnerable to technical failures or cyberattacks (BIS, 2021). Bromberg et al. (2017) emphasized that fintech regulation cannot be separated from efforts to balance innovation and financial system stability. Traditional, institutional-based regulatory models should be replaced by an activity-based approach, where each digital financial service is monitored based on its functions and risks, rather than its institutional form. This approach is important because many fintech companies operate across sectors and jurisdictions without a single oversight.

Furthermore, Ferrarini (2017) introduced a proportionate regulation model for fintech and crowdfunding, which is a policy framework that adjusts the level of regulation to the risk profile of each product. In this model, high-risk fintechs are required to implement stricter supervision and disclosure, while small, low-risk innovations are given experimental space through the regulatory sandbox. Thus, the application of risk management theory in the fintech sector must accommodate the dynamics of innovation while strengthening investor confidence and long-term financial stability.

## **2.2. Regulatory Framework and Legal Protection in the Digital Economy**

The regulatory framework plays an important role in maintaining a balance between innovation and the stability of the digital financial system. Fintech

regulation in various countries is growing rapidly as the complexity of the products and actors involved increases. According to the Bank for International Settlements (BIS, 2021), fintech supervision should be adaptive and principle-based regulation in order to be able to anticipate risks arising from new business models such as peer-to-peer lending, digital payments, and equity crowdfunding.

In the legal context of the digital economy, Bahtiar et al. (2021) emphasize the importance of regulations that not only set legal boundaries, but also create a clear risk mitigation system for organizers and investors. They highlighted that in the technology-based stock offering model, investor protection is a very sensitive aspect because information asymmetry can give rise to potential fraud and legal uncertainty. Therefore, risk management must be synergized with the principles of information disclosure and good governance. Duffie (2018) underlines the need for proportionate supervision, where regulation is adjusted to the level of risk and size of the entity. This approach not only strengthens market confidence, but also creates a competitive ecosystem for MSMEs. Thus, legal protection in the digital economy is not enough with reactive law enforcement, but must be preventive and collaborative between regulators, platforms, and users to ensure the fairness and sustainability of the fintech ecosystem.

### **3. Method**

This study uses a qualitative descriptive approach, which aims to systematically describe and analyze the phenomenon of the application of risk management principles in the technology-based financial services ecosystem or

financial technology (fintech). This approach was chosen because it is able to provide an in-depth understanding of the social, legal, and economic context surrounding fintech developments, without limiting analysis to numbers or statistics. Qualitative research is interpretive, allowing researchers to examine the meaning behind policies, regulations, and behavioral dynamics of digital finance industry players.

The data source used in this study is secondary data, which is obtained through the review of various scientific documents and official policies. The data includes academic journals, reports of international financial institutions, national regulations, as well as the results of studies by government institutions and international organizations related to digital financial innovation. The data selection was carried out purposively by considering the relevance to the topics of risk management, fintech regulation, and the development of micro, small, and medium enterprises (MSMEs). All data sources were analyzed to identify patterns, similarities, and differences in risk management arrangements across jurisdictional contexts.

The analysis process is carried out through several stages. First, the researcher conducts data reduction, namely the selection and simplification of information that is relevant to the focus of the research. Second, data was presented in the form of a narrative that described the relationship between risk management theory and regulatory practices in the fintech sector. Third, the researcher verifies and draws conclusions by compiling interpretations that describe general patterns, trends, and policy implications that emerge from the data that has been analyzed.

To maintain the validity of the research results, a source triangulation technique was carried out by comparing various references from journals,

regulations, and reports of financial institutions. This process ensures that the results obtained have a strong scientific basis and are free from subjective bias. The analysis is carried out inductively, starting from empirical facts in the literature to the formation of theoretical conclusions. The final result of this method is expected to provide a comprehensive understanding of how risk management principles are applied in the fintech industry and how regulations can be designed to support innovation while ensuring the security and sustainability of the digital financial system.

#### **4. Results**

The results show that the development of financial technology (fintech) has become the main catalyst for fundamental changes in the global and national financial system. This transformation is not only technological, but also conceptual in changing the way people, business actors, and financial institutions interact in financing and investment activities. Fintech introduces a faster, more efficient, and inclusive business model through the digitization of financial services that was previously dominated by conventional institutions. In this context, the concept of equity crowdfunding has emerged as one of the most progressive digital financial innovations because it provides alternative financing for micro, small, and medium enterprises (MSMEs) that have been facing limited access to formal capital. This model allows business actors to obtain funds directly from investors through online platforms without the intermediary of traditional financial institutions (Lee & Shin, 2018).

However, these innovations also have logical consequences in the form of new risks that demand a more comprehensive approach to supervision and risk management. Based on the results of the literature review, the main characteristics of innovative, decentralized, and data-driven fintech present different types of risks than conventional financial systems. Magnuson (2018) emphasized that the institution-based supervision approach used in the traditional financial system is no longer effective in dealing with fintech dynamics that are cross-sectoral, cross-jurisdictional, and tend to be based on digital activities. Therefore, the supervisory approach needs to transform from entity-based regulation to activity-based regulation, which is a system that focuses on the function and risk of each service, not the form of the institution. This approach has proven to be more responsive in dealing with widespread systemic risks such as platform failures, cybersecurity breaches, and manipulation of user data.

From the results of the in-depth analysis, it was identified that the main risks in equity crowdfunding include legal, operational, market, reputational, and technological risks. Legal risks are related to the lack of uniformity of contractual standards between platforms as well as weaknesses in regulatory certainty. Ferrarini (2017) highlights that the main challenge in crowdfunding regulation in Europe is to ensure a balance between investor protection and freedom to innovate. Regulations that are too strict will hinder the participation of small businesses and retail investors, while regulations that are too loose open up opportunities for fraud, misuse of funds, and legal uncertainty for users. In this context, the balance between innovation and stability is a crucial aspect in fintech policy formulation.

Meanwhile, the Bank for International Settlements (BIS, 2021) found that the implementation of principle-based regulation is more effective than rule-based regulation in the face of rapid fintech dynamics. Principles-based regulations provide flexibility for supervisory authorities and market participants to adapt policies to changes in actual risks on the ground. For example, the implementation of regulatory sandboxes in countries such as Singapore, the United Kingdom, and Malaysia has made it possible to test new business models under limited but safe supervision. This approach has also begun to be adopted in Indonesia through the Financial Services Authority (OJK) Regulation Number 13/POJK.02/2018 concerning Digital Financial Innovation which opens a trial space for technology-based financial innovation. This supervisory model has been proven to encourage the development of the digital financial ecosystem without sacrificing system stability.

In terms of legal protection, Bahtiar et al. (2021) emphasized that the application of risk management in equity crowdfunding cannot be separated from the disclosure principle. Investors should have full access to material information such as financial statements, business prospects, and fund oversight mechanisms to ensure investment decisions are made consciously and responsibly. Without transparency, public trust in fintech platforms will decline and the risk of investor losses will increase. Therefore, the preparation of risk management rules needs to place investor protection as a top priority, while ensuring legal certainty for platform operators and users.

In addition to the legal aspect, the governance dimension is also an important element in the effectiveness of risk management. The Roszkowska (2021)

emphasizes that the success of risk mitigation in fintech is highly dependent on the quality of internal governance, especially in the application of the principles of accountability, internal supervision, independent audit, and separation of operational functions. Tanjung (2020) found that fintech companies with good governance structures show higher levels of compliance with regulations and have better ability to maintain user trust. This strengthens the argument that effective legal policies must be accompanied by strengthening internal supervisory mechanisms at the corporate level, not just at the external regulatory level.

In the context of financial inclusion, the results of an Asian Development Bank study (2021) show that fintech has a significant contribution to expanding financial access for low-income people and MSMEs. The equity crowdfunding model allows small entrepreneurs to obtain capital at a low cost, fast process, and without collateral, thereby supporting more inclusive economic growth. However, this study also underlines that the level of financial literacy and risk management capacity of MSME actors are still the main obstacles. Lack of understanding of digital mechanisms can pose a risk of moral hazard and business failure. Therefore, public policy needs to be directed not only at fintech regulation, but also at increasing the capacity of financial literacy and education for users. Anarfo and Abor (2020) reinforce these findings by showing a positive correlation between financial technology adoption and financial system stability, noting that these relationships are only effective when supported by adequate risk mitigation policies. In a situation where fintech growth is not balanced by strong oversight, the potential for systemic risk increases sharply. This underscores the importance of close coordination

between regulators, financial institutions, and platform operators in maintaining the stability of the digital financial system.

Duffie (2018) and BIS (2021) also highlight the need for regulatory harmonization between countries to prevent the practice of regulatory arbitrage, i.e. the relocation of fintech players to looser jurisdictions to avoid strict supervision. In the era of digital-economy globalization, this phenomenon poses cross-border risks that can threaten regional financial stability. Therefore, collaboration between authorities is a strategic need, especially in data exchange, cross-border surveillance, and cyber law enforcement. International efforts such as those undertaken by the Financial Stability Board (FSB) and the International Organization of Securities Commissions (IOSCO) are important steps towards a more coordinated regulatory framework.

From the academic side, the literature generally shows agreement that the success of fintech as an instrument of economic development is highly dependent on the synergy between innovation, adaptive regulation, and effective risk management. However, this study found a gap in the implementation of these principles in developing countries. Most previous studies have focused on the context of developed countries such as Europe and North America, while Southeast Asia still requires a more contextual, participatory, and local needs-based approach. Effective regulation in this region must take into account socio-economic characteristics, levels of financial literacy, and diverse technological infrastructure.

Furthermore, the study emphasizes that the successful implementation of risk management principles in the fintech sector depends on three main pillars. First,

legal certainty and investor protection, which ensures transparency and accountability in every digital funding activity. Second, strong internal governance at the organizer level, which ensures ethical business practices and regulatory compliance. Third, flexible principles-based supervision, which allows regulators to adapt policies to technological developments without curbing innovation. These three pillars, if implemented consistently and synergistically, are believed to be able to create an inclusive, secure, and sustainable digital financial ecosystem. With an adaptive regulatory model, the government can maintain a balance between encouraging innovation and mitigating risks, so that fintech truly functions as an effective economic empowerment instrument for MSMEs. The integration of law, technology, and good governance will be an important foundation towards a digital financial system that is equitable and resilient to future disruptions.

## 5. Discussion

The results of this study show that the dynamics of fintech regulation demand a new approach to adaptive and principles-based risk management. In line with the findings of Bromberg et al. (2017), traditional financial supervision systems that focus on institutions are no longer relevant for industries that are digital activity-based and cross-jurisdictional. Changes in market structure due to technology have created “new financial actors” that operate beyond the confines of conventional law. Therefore, the main challenge for regulators is to balance the drive for innovation and the need to maintain financial system stability. The proportionate regulation approach as stated by Ferrarini (2017) has proven to be able to accommodate these

two interests. Regulation that is proportionate to the level of supervision is proportionate to the actual risks posed by an entity. For example, small fintech startups with limited risk can gain innovation space through the regulatory sandbox, while large platforms with high systemic impact are required to comply with strict oversight and periodic audits. This scheme not only improves regulatory efficiency, but also creates competitive fairness for small and medium-sized businesses.

Furthermore, Lee and Shin (2018) emphasized that risk management arrangements in the field of equity crowdfunding must place investor protection at the core of policy. The risk of misappropriation of funds and information asymmetry is still the dominant issue that hinders public trust in the digital financing system. To overcome this, information transparency and audit mechanisms need to be institutionalized at every stage of fundraising. This is in line with the principle of disclosure in capital market law which requires full disclosure of material information that affects investment decisions. On the other hand, the Bank for International Settlements (BIS, 2021) highlights the importance of cross-authority coordination to deal with systemic risks due to interconnection between platforms. The failure of one major fintech platform can have a domino effect on the digital financial market at large. Therefore, the surveillance system going forward must strengthen data exchange between authorities and develop robust crisis mitigation protocols. In this context, risk management is not only internal at the corporate level, but also collective at the level of the industrial ecosystem.

The Roszkowska (2021) also emphasizes that the success of digital regulation is determined by the government's ability to build multi-stakeholder collaboration

between regulators, fintech providers, academic institutions, and the user community. Without this synergy, legal policies have the potential to become reactive and lagging behind technological developments. Cross-sector collaboration is believed to be able to create a digital economy legal system that is inclusive, accountable, and long-term-oriented. The results of this study reinforce the view that the effectiveness of fintech regulation does not only depend on the content of the regulations, but also on how risk management principles are integrated into governance practices and corporate culture. By implementing principles-based regulations, information transparency, and intergovernmental collaboration, the fintech ecosystem can develop innovatively and safely. This approach is key for developing countries to ensure that digital transformation truly drives inclusive economic growth, not just creates new inequalities.

## **6. Conclusion**

This research confirms that digital financial transformation through fintech, especially the equity crowdfunding model, has great potential in expanding access to financing for micro, small, and medium enterprises (MSMEs). However, these developments cannot be separated from various risks that require strong governance and regulation. The application of risk management principles is a key element to maintain a balance between innovation and legal protection. A principle-based regulatory approach allows for policy flexibility without compromising financial system stability. In this context, investor protection should be a top priority by ensuring information transparency, audit mechanisms, and effective cross-authority

oversight. In addition, internal governance at the fintech operator level needs to be strengthened through an integrated risk management system, from risk identification to continuous monitoring.

The findings of the study also show that collaboration between governments, supervisory authorities, industry players, and the public is an important factor for building an inclusive and sustainable digital financial ecosystem. This synergy will create a balance between legal certainty and the encouragement of technological innovation. By applying the principles of transparency, accountability, and risk-based supervision, the digital financial system can function efficiently while providing optimal protection for investors and the wider community. Thus, the regulation of risk management in fintech is not only the responsibility of regulators, but also a collective commitment of all stakeholders to realize the development of a fair, safe, and long-term oriented digital economy.

## References

- Anarfo, E. B., & Abor, J. Y. (2020). Financial regulation and financial inclusion in Sub-Saharan Africa: does financial stability play a moderating role?. *Research in International Business and Finance*, 51, 101070.
- Asian Development Bank. (2021). *Harnessing digital finance for inclusive growth in Asia*. ADB Publications. Retrieved May 11, 2022 From <https://www.adb.org/publications/harnessing-digitalization-sustainable-economic-development>

- Bahtiar, B., Lubis, E., & Harahap, H. (2021). Pengaturan Kaidah Manajemen Risiko Atas Penawaran Saham Berbasis Teknologi Informasi (Equity Crowdfunding) untuk Pengembangan UMKM di Indonesia. *Jurnal Hukum Jurisdictie*, 3(2), 65-98.
- Bromberg, L., Godwin, A., & Ramsay, I. (2017). Fintech sandboxes: Achieving a balance between regulation and innovation. *Journal of Banking and Finance Law and Practice*, 28(4), 314-336.
- Bank for International Settlements (BIS). (2021). Fintech regulation: How to achieve a level playing field (FSI Papers No. 17). Retrieved May 9, 2022 From <https://www.bis.org/fsi/fsipapers17.htm>
- Duffie, D. (2018). Financial regulatory reform after the crisis: An assessment. *Management Science*, 64(10), 4835-4857.
- Ferrarini, G. (2017). Regulating fintech: Crowdfunding and beyond. *European Economy*, (2), 121-142.
- Magnuson, W. (2018). Regulating fintech. *Vand. L. Rev.*, 71, 1167.
- Roszkowska, P. (2021). Fintech in financial reporting and audit for fraud prevention and safeguarding equity investments. *Journal of Accounting & Organizational Change*, 17(2), 164-196.
- Tanjung, M. (2020). A cross-firm analysis of corporate governance compliance and performance in Indonesia. *Managerial Auditing Journal*, 35(5), 621-643.
- Zhang-Zhang, Y., Rohlfer, S., & Rajasekera, J. (2020). An eco-systematic view of cross-sector fintech: The case of Alibaba and Tencent. *Sustainability*, 12(21), 8907.