

The Effectiveness of P2P Lending Regulation for Customer Protection in Indonesia

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Abstract

This research discusses Peer-to-Peer Lending in Indonesia, with a particular focus on the customer protection. With the rapid digitalization of financial technology in Indonesia, P2P lending platforms gain popularity among the society. However, this raises the concern on how effective Indonesia's regulation is on supervising the industry and protecting its users. A comprehensive analysis on the current regulatory framework established by the Financial Security Authority (OJK) and Indonesian Fintech Lending Association (AFPI). Identifying the gaps and issues that are risking the protection of the customers.

Keywords: Peer-to-Peer (P2P) lending, Financial Technology (fintech), Customers Protection, Indonesia



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INTRODUCTION

The rapid digitalization of financial services in Indonesia, the world's fourth most populous nation with 281 million people as of the first half of 2024¹. Indonesia's digital landscape has experienced remarkable growth, with smartphone penetration reaching more than 221 million and the usage of internet, covering around 79.5% of the country's population in 2024.² A recent survey reveals that nearly 35% of adult workers in Indonesia express dissatisfaction with their current wages, stating that their income is insufficient to cover their basic living expenses.³ 24.8 Million Employees Received Salaries Below the Minimum Wage in August 2023⁴. This dissatisfaction is further amplified by the fact that price increases for goods and services have outpaced the gradual rise in income levels.⁵ Furthermore, the low average income among Indonesian workers has led to a high demand for loans due to their need to fulfil their expenses causing 60% of the working population currently in debt.⁶ With access to the formal banking sector in 2024, there are still around 23.7% of the adult population in Indonesia who do not have bank accounts at financial institutions.⁷ Studies indicate that roughly 48% of

¹Badan Pusat Statistik Indonesia. (2024, June 28). "Jumlah Penduduk Pertengahan Tahun - Tabel Statistik." <https://www.bps.go.id/id/statistics-table/2/MTk3NSMy/jumlah-penduduk-pertengahan-tahun--ribu-jiwa-.html>

²"APJII Jumlah Pengguna Internet Indonesia Tembus 221 Juta Orang." (2024, February 7). Asosiasi Penyelenggara Jasa Internet Indonesia. <https://apjii.or.id/berita/d/apjii-jumlah-pengguna-internet-indonesia-tembus-221-juta-orang>

³"Survei: 35% Pekerja Indonesia Tidak Puas dengan Upah." (2023, February 28). Warta Ekonomi. <https://wartaekonomi.co.id/read483526/survei-35-pekerja-indonesia-tidak-puas-dengan-upah>

⁴Ahdiat, A. (2024, January 25). "24,8 Juta Karyawan Terima Gaji Di Bawah UMP pada Agustus 2023." Pusat Data Ekonomi dan Bisnis Indonesia | Databoks. <https://databoks.katadata.co.id/ketenagakerjaan/statistik/edbfbc07b66ff7/248-juta-karyawan-terima-gaji-di-bawah-ump-pada-agustus-2023>

⁵Sutalasc. (2022, August 9). "The price of goods increased how do people respond to this?" Global Loyalty Indonesia. <https://gli.id/article-detail/the-price-of-goods-increased-how-do-people-respond-to-this>

⁶Subiyanto, R. (2014, February 22). "60% Penduduk Indonesia 'Dijerat' Hutang. Bisnis.com." <https://ekonomi.bisnis.com/read/20140222/9/205268/60-penduduk-indonesia-dijerat-hutang>

⁷Dakopa, G. H. (2024, May 28). "Indonesia Negara Teratas Penduduk Tak Punya Rekening Bank." Radio Republik Indonesia. <https://www.rri.co.id/keuangan/715833/indonesia-negara-teratas-penduduk-tak-punya-rekening-bank>

Indonesian adults fail to meet conventional bank lending requirements⁸ due to a lack of understanding of the process, insufficient credit history, the need for collateral, complicated paperwork, irregular income, and high interest rates that make loans unaffordable for many⁹.

In response to these financial access barriers, peer-to-peer (P2P) lending has emerged as a popular alternative to traditional financial services. The changes in habits of technology caused the improvement of financial service in the rise of Financial Technology (Fintech).¹⁰ P2P lending acts as an alternative to obtaining loans from formal institutions like banks, cooperatives, credit services, or government bodies—which often involve more complex procedures. P2P Lending, also known as Financial Technology Lending and Borrowing Services, connects lenders with borrowers directly, facilitating loan agreements in rupiah through an electronic system using the internet¹¹. It is more convenient and the process is faster compared to conventional financial institutions.¹² The operation of the fintech industry is also supervised by the Financial Services Authority (OJK) in line with one of its main duties and functions, which is to oversee the regulatory and supervisory systems of the Non-Bank Financial Industry (IKNB) in an integrated manner across all activities within the financial services sector.¹³

As of September 2021, data from the Indonesian Financial Services Authority (OJK) indicates that there are 104 P2P Lending providers, with total outstanding loans amounting to IDR 27.48 trillion. This represents a growth of 116.18% compared to the same period the previous year. The outstanding loans support 22.88 million active borrower accounts. Given this performance, the P2P lending industry in Indonesia and other emerging markets is anticipated to support the micro, small, and medium enterprises that make up approximately 60% of Indonesia's economy.¹⁴ As of October 21, 2024, the total number of registered peer-to-peer lending or fintech lending providers licensed by OJK is 97 companies.¹⁵ It was informed by OJK in August 2024, over a total of Rp72.03 trillion, or a growth of 35.62 percent year-on-year.¹⁶ In contrast, OJK Blocks 2,400 Illegal Online Lenders in the Last 14 Months (1 January 2023 - 13 February 2024)¹⁷ and in the the period of April-May 2024, The Task Force for the Eradication of Illegal Financial Activities (Satgas PASTI) reported that it had blocked 824 illegal entities¹⁸. The rapid growth and fame of P2P lending in Indonesia has been accompanied by various challenges and risks, particularly in terms of customer protection. One major concern is the lack of transparency and clarity in the terms and conditions of P2P lending agreements¹⁹ and the lack of awareness of the dangers in illegal P2P. The presence of unlicensed or illegal

⁸ "Unlocking financial inclusion in Indonesia: The unbanked dilemma and the promise of AI." (2024, July 18). 1datapipe. <https://1datapipe.com/blogs-en/unlocking-financial-inclusion-in-indonesia/>

⁹Grandolini, G. M. (2015, October 15). "Five challenges prevent financial access for people in developing countries." World Bank Blogs. <https://blogs.worldbank.org/en/voices/five-challenges-prevent-financial-access-people-developing-countries>

¹⁰Yunus, U. (2019). "A comparison peer to peer lending platforms in Singapore and Indonesia. Journal of Physics: Conference Series," 1235(1), 012008. <https://doi.org/10.1088/1742-6596/1235/1/012008>

¹¹"Dharmastuti, C. F., & Laurentxius, J. (2021). "Factors and benefits that affect lender's interest in giving loans in peer to peer (P2P) lending platform". Binus Business Review, 12(2), 121-130. <https://doi.org/10.21512/bbr.v12i2.6359>

¹²"Mengenai Fintech P2P Lending: Alternatif Investasi dan Pendanaan. (n.d.). OJK." <https://sikapiuangmu.ojk.go.id/FrontEnd/CMS/Article/20566>

¹³Meline Gerarita Sitompul. (2018). "Urgensi legalitas financial technology (Fintech): Peer to peer (P2p) lending Di Indonesia". JURNAL YURIDIS UNAJA, 1(2). <https://doi.org/10.35141/jyu.v1i2.155>

¹⁴Yusgiantoro, I., Tumbelaka, I., & Ashar, H. "What Can Big Data Tell Us About Loan Default, Lending Rate and Loan Amount in Financial Technology Peer-to-Peer Lending? Case of Indonesia". OJK.

¹⁵Financial Technology - P2P Lending. <https://ojk.go.id/id/kanal/iknb/financial-technology/default.aspx>

¹⁶Pratama, G. (2024, October 2). "Orang RI Makin Doyan Ngutang Di Pinjol, Jumlah Pinjaman Tembus Rp72,03 Triliun per Agustus 2024". Infobanknews. https://infobanknews.com/orang-ri-makin-doyan-ngutang-di-pinjol-jumlah-pinjaman-tembus-rp7203-triliun-per-agustus-2024/#google_vignette

¹⁷Annur, C. M. (2024, March 6). "OJK Blokir 2,4 Ribu Pinjol Ilegal dalam 14 Bulan Terakhir". Pusat Data Ekonomi dan Bisnis Indonesia | Databoks. <https://databoks.katadata.co.id/keuangan/statistik/dd692d85cbcd899/ojk-blokir-24-ribu-pinjol-ilegal-dalam-14-bulan-terakhir>

¹⁸Satgas Pasti Blokir 824 Entitas Ilegal Di April-Mei 2024". (2024, June 11). <https://ojk.go.id/id/berita-dan-kegiatan/info-terkini/Pages/Satgas-Pasti-Blokir-824-Entitas-Ilegal-di-April-Mei-2024.aspx>

¹⁹Oktaviani, Y., & Dewi, M. K. (2023). "Is information transparency important for funders? A case study of sharia P2P lending companies in Indonesia". Journal of Accounting and Investment, 24(2), 462-486. <https://doi.org/10.18196/jai.v24i2.17220>

P2P lending companies are problems to implement consumer protection concerns in Indonesia. As illegal P2P are not listed and monitored by OJK, hence potentially non-compliant with other applicable laws and regulations.²⁰

Differences Between Official and Illegal Peer-to-Peer Lending Fintech

Aspect	Illegal P2PL Fintech	Registered/Authorized P2PL Fintech
Regulation	No regulator oversight.	Supervised by OJK with consumer protection.
Interest & Penalties	High, unclear fees and penalties.	Transparent, capped at 0.8% per day, total fees max 100% of loan principal.
Compliance	Does not follow OJK or legal regulations.	Must comply with OJK and legal regulations.
Management	No experience required.	Directors/commissioners need 1 year of financial services experience.
Debt Collection	Unethical, harsh methods, often illegal.	Collectors must be certified by AFPI; violations sanctioned by OJK/AFPI.
Association	Not a member of any association.	Must join AFPI (OJK-designated).
Office Location	Location unclear, often hidden or abroad.	Clear location, verified by OJK.
Legal Status	Operates without authorization, apps often blocked by SWI.	Operates legally under OJK regulations.
Loan Requirements	Loans granted easily, no purpose asked.	Must assess loan purpose and perform credit scoring.
Customer Complaints	Ignore complaints.	Must provide complaint resolution, report to OJK, and offer dispute facilitation.
Management Competency	No training required.	Mandatory AFPI seminars and certifications for management.
Data Access	Accesses all phone data, can misuse contacts, photos, etc.	Can only access camera, microphone, and location (CEMILAN).
Lender Risks	High risk of loss, mismanagement, potential Ponzi schemes.	Funds handled via banks, clear terms on fees and benefits in agreements.
National Security	No local data centers or disaster recovery in Indonesia.	Must have data centers and disaster recovery centers in Indonesia.

Source: OJK

Problem

1. What is the importance of customer protection in P2P lending in Indonesia?
2. How effective are the customer protection regulations in safeguarding P2P lending users in Indonesia?

RESEARCH METHODS

This paper uses a normative research method combined with a comparative analysis between countries and makes use of secondary data to examine and evaluate the effectiveness of P2P lending regulations, particularly in Indonesia and Singapore. By comparing the two countries' regulatory frameworks, identifying similarities and differences, the paper seeks to

²⁰"Bahaya Fintech P2P Lending Illegal". (n.d.). OJK. <https://www.ojk.go.id/id/kanal/iknb/data-dan-statistik/direktori/fintech/Documents/P2PL%20legal%20vs%20ilegal.pdf>

identify best practices, potential gaps, and the effectiveness of customer protection regulations in each jurisdiction. It will help in assessing which country's regulations are more effective in fostering a secure P2P lending industry.

RESEARCH RESULT AND DISCUSSION

Understanding P2P Lending

Definition of P2P Lending

As outlined in OJK Regulation No.77/POJK.01/2016, fintech lending or peer-to-peer (P2P) lending refers to a service that enables direct lending and borrowing of funds in Indonesian Rupiah between lenders (who provide the loans) and borrowers (who receive the loans) via an online platform. This service is also known as Information Technology-Based Money Lending Services (LPMUBTI).²¹

Convenient and drawbacks of P2P lending

From the customer's perception, P2P lending has several factors that attract them to obtain loans:

1. P2P lending offers significant convenience and benefits to individuals seeking financial services, particularly in obtaining loans. One of the key advantages is the streamlined application process and the more flexible requirements, which set it apart from traditional banking methods.²²
2. Unlike conventional loans, P2P lending platforms often do not require customers to provide collateral, credits history or meet strict eligibility requirements. This makes it particularly appealing to those who lack assets or have limited financial backgrounds. The simplicity in the application process and fewer requirements to be fulfilled naturally attracts the public attention, leading to the growing use of P2P lending.
3. The appeal is further enhanced by quick approval times, clear terms, and minimal paperwork.

Consequently, P2P lending has emerged as a popular option for individuals looking for a quicker and more convenient way to secure loans.

However, borrowers should be aware of potential risks, such as higher interest rates for those with lower credit scores and the absence of personalised support that is often available with traditional lenders. Furthermore, here are additional potential drawback for customers:

4. The uncertainty of whether their loan request will be accepted or if they will receive the full amount they've applied for. P2P platforms don't provide upfront guarantees that a loan will be financed at specific amounts, interest rates, credit risks, or terms. If lenders decline the loan, the offer is often adjusted by raising the interest rate to meet lender requirements.
5. Customers have expressed concerns over the lack of transparency in how creditworthiness is assessed by these platforms. Customers may not know what data is being used or how their credit ratings are calculated, leading to worries about potential discrimination based on factors like age, residence, or migration background.²³ This issue highlights the broader problem of insufficient disclosure standards on P2P platforms, which can add complexity to the borrowing process.

²¹Fitriana, D., Rahman, N., & Wahid, A. (2021). "Analisa peraturan otoritas jasa keuangan (Pojk) nomor 77/Pojk.01/2016 tentang layanan pinjam meminjam uang berbasis teknologi informasi (Lpmubti) terhadap penggunaan financial technology (Fintech) pada industri jasa perbankan Di wilayah III cirebon". *Mahkamah : Jurnal Kajian Hukum Islam*, 6(1), 1. <https://doi.org/10.24235/mahkamah.v6i1.7722>

²² Sumitro, Permana, & Wibowo. (2023). "P2P Lending Customer Behavior Viewed from the Perspective of Security, Compatibility and Trust with Attitude as Variable Mediation", 11(3), 1425-1435.

²³ Lenz, R. (2016). "Peer-to-peer lending: Opportunities and risks". *European Journal of Risk Regulation*, 7(4), 688-700. <https://doi.org/10.1017/s1867299x00010126>

Meanwhile, from the lender's perspective P2P lending has several factors that attract them to be a part of this:

1. The regulatory assurance provided by authorities like the OJK, P2P lending is regulated under the OJK No.77/POJK.01/2016 concerning money lending through technology.²⁴ The official regulation and supervisory from the OJK provide legitimacy for P2P lending, forming assurance for both the lender and customer in the process.
2. The interest rates on loans are substantial, making them more profitable for lenders. This higher return potential compared to traditional investment options, like savings accounts or bonds, is a major factor that draws lenders to P2P lending platforms. It offers a chance to earn greater profits on their investments, especially when lending to borrowers with higher risk profiles.

Difference between P2P lending and Traditional Loans

Traditional loans are obtained through financial institutions such as banks and credit unions. Where banks act as the sole lender using obtained fundings through their own capital and depositors' funds. Following a strict regulation, banks maintain a direct lender-borrower relationship. In contrast, P2P lending institutions operate through a three-party system, creating a digital marketplace where borrowers, lenders, and the platform interact online as intermediaries. The operational characteristics of these systems show notable differences. Traditional banks offer more competitive interest rates and higher loan amounts, typically requiring collateral (except for specific unsecured loan products). Their process involves comprehensive documentation and lengthy approval procedures. Banks operate with lower risk profiles due to rigorous regulatory oversight and detailed borrower assessments, though they incur higher operational costs from maintaining physical infrastructure and extensive paperwork.²⁵ P2P platforms, on the other hand, operate with higher interest rates but eliminate the need for collateral and typically deal with smaller loan amounts. Their key advantage lies in processing speed and simplicity, often completing transactions within 2-3 days. While this accessibility benefits borrowers, it creates higher risks for lenders since they, not the platform, bear the full burden of defaults. However, the digital infrastructure allows for lower transaction costs and streamlined operations.²⁶ The elevated rates in P2P lending are attributed to three key factors: simplified borrowing processes, increased lender risk exposure, and the absence of collateral requirements. Despite the higher costs, many small businesses, particularly those deemed non-bankable by traditional institutions, find P2P lending attractive due to its accessibility and lack of asset security requirements. Traditional banks maintain their competitive edge through established trust, lower interest rates, and robust consumer protection mechanisms developed over decades.²⁷

How does P2P lending work?

In the P2P lending ecosystem, there are dual participants: the capital seekers (borrowers) and capital providers (investors or lenders).²⁸ The borrowing process initiates when potential borrowers digitally submit comprehensive documentation through the platform,

²⁴ Tampubolon. (2019). "Seluk-Beluk Peer To Peer Lending Sebagai Wujud Baru Keuangan Di Indonesia".10.23920/jbmh.v3n2.15

²⁵ "P2P lending vs traditional lending". (2024, June 18). Monexo - Switch to Higher Returns. <https://monexo.co/p2p-lending-vs-traditional-lending/>

²⁶ Ali, S., Simboh, B., & Rahmawati, U. (2023). "Determining factors of peer-to-peer (P2P) lending avoidance: Empirical evidence from Indonesia". *Gadjah Mada International Journal of Business*, 25(1), 1. <https://doi.org/10.22146/gamaijb.68805>

²⁷ Agustin, N. N., Syapsan, & Mayes, A. (2023). "Analysis of Factors Affecting Funding Decisions at Fintech Peer-to-Peer Lending in Indonesia". <https://doi.org/10.37385/ijedr.v4i3.2677>

²⁸ Kohardinata, C., & Widianingsih, L. P. (2023). "Pertumbuhan Pinjaman peer-to-peer (P2P) Terhadap Pertumbuhan Kredit modal Kerja, Investasi, Dan Konsumsi: Disruptif pada Perbankan Di Indonesia-kah?" *Jurnal E-Bis*, 7(1), 1-13. <https://doi.org/10.37339/e-bis.v7i1.1139>

encompassing their financial records spanning specified timeframes and detailed explanations of their funding requirements.²⁹ Investors gain comprehensive access to analyse various loan proposals Through a specialised dashboard interface. This interface provides detailed visibility into prospective borrowers' profiles, including their revenue streams, credit history, intended use of funds, and supporting rationale for the loan request. Once investors identify suitable opportunities and commit their capital, the funding process proceeds seamlessly according to predetermined investment parameters. The financial relationship continues with borrowers making monthly instalments, while investors receive returns comprising both their initial investment and interest earnings. The profitability of these investments varies according to the specific interest rates attached to each loan agreement.³⁰ This marketplace model creates a win-win situation where borrowers can potentially access loans with better terms, lenders can earn attractive returns, and the platform generates revenue through service fees. The platform acts as an intermediary that handles all the administrative aspects, documentation, and payment processing, making the lending process more efficient and accessible for both parties. ³¹ In the context of establishing P2P platforms ,the initial capital requirement for establishing has been increased to IDR 25 billion (approximately USD 1.7 million), which is ten times higher than the previous requirement under POJK 77/2016. Despite this increase, the capital requirements for P2P platforms are still relatively low compared to banks or multi-finance companies, which engage in on-balance sheet lending. According to POJK 10/2022, the funding for capital participation in P2P platforms cannot come from loans, a rule that OJK is applying more broadly across various financial sectors. Additionally, IDR 7.5 billion (around USD 510,000) by 4 July 2024. Any increase in paid-up capital must be approved by OJK as stipulated by POJK 10/2022.³²

Problem in p2p lending in Indonesia comparing listed P2P and unlisted p2p

The OJK regulates listed or legal P2P platforms under POJK 77/2016, but there are many unlisted or illegal P2P platforms existing and are being used in Indonesia. Due to the lack of regulatory oversight, these illegal P2P would be able to engage in unethical practices without being held accountable. This creates high risk environment for both lenders and borrowers³³ , exposing them to issues such as:

1. Lack of Regulatory Oversight. Illegal P2P platforms operate outside the law, meaning they are not subject to OJK regulations. This lack of oversight leaves both borrowers and lenders unprotected.
2. High and Non-Transparent Interest Rates. Many illegal platforms impose exorbitant interest rates and penalties without clear disclosure, making it difficult for borrowers to understand the true cost of their loans. This lack of transparency can lead to over-indebtedness as customers may take on more debt than they can manage.
3. Inadequate Complaint Resolution Standards. There are no established standards for addressing customer complaints on illegal platforms, leading to unresolved issues and dissatisfaction among users.

²⁹Admin. (2021, January 13). "A general perspective on peer-to-peer lending in Indonesia". Schinder Law Firm. <https://schinderlawfirm.com/blog/a-general-perspective-on-peer-to-peer-lending-in-indonesia/>

³⁰Balyuk, T. (2016). "Financial innovation and borrowers: Evidence from peer-to-peer lending". SSRN Electronic Journal. <https://doi.org/10.2139/ssrn.2802220>

³¹ "FDIC: Federal Deposit Insurance Corporation". <https://www.fdic.gov/regulations/examinations/supervisory/insights/siwin15/siwinter15-article2.pdf>

³²Virgiany, M., & Tang, I. (n.d.). "OJK's Revised Regulatory Framework on Peer-to-Peer Lending". Hiswara Bunjamin & Tandjung. <https://www.hbtlaw.com/latest-thinking/ojk%E2%80%99s-revised-regulatory-framework-peer-peer-lending>

³³ Hadiyati, N. (2022). "Illegal Fintech P2P Lending in Indonesia: Addressing the Problem of Over-Indebtedness During the COVID-19 Pandemic". *Jurnal Jurisprudence*.

4. Unethical Debt Collection Practices. Illegal P2P lenders often resort to aggressive and unlawful collection methods, including threats and intimidation, creating a hostile environment for borrowers.
5. Data Privacy Violations. Customers are usually asked to submit their personal information during the application process of obtaining loans. They could misuse it during the debt collection process. Which is not a taboo case here in Indonesia.
6. Risk of Fraud And Scams. The lack of regulatory framework makes users of illegal P2P lending exposed to high risk of fraud.

Cases of P2P lending Case in Indonesia

According to the Financial Services Authority, the high number of illegal fintech P2P lending startups has resulted in more cases that negatively impact consumers. These illegal startups offer very simple loan disbursement processes, making them attractive to consumers. However, this ease of access comes with potential problems or risks that consumers might encounter later on.³⁴ The case of a taxi driver took his own life due to the regarding . The tragic case of Zulfadli, a 35-year-old Blue Bird taxi driver, illuminates the dark side of online lending in Indonesia. After borrowing just 500,000 rupiah for daily expenses through a fintech platform, he faced mounting interest rates and aggressive debt collection practices. The debt collectors' tactics included distributing his personal data and making relentless threats, causing severe psychological distress. Tragically, Zulfadli was found deceased in his boarding room in Mampang, South Jakarta. He left a suicide note addressed to both his family and the Financial Services Authority (OJK), pleading for an end to online lending practices he termed as "devil's traps." His final message to loan sharks was haunting: "We shall meet in the afterlife." This incident exposed critical gaps in Indonesia's fintech regulations. Despite OJK's established rules through POJK 77 and oversight from AFPI requiring transparency and consumer protection, the case demonstrates how a small loan can lead to devastating consequences when combined with aggressive collection practices and inadequate regulatory enforcement. It is believed by OJK that the "PinJol" used is illegal.

Effectiveness of Regulation and implementation customer protection in Indonesia

The effectiveness of consumer protection is primarily governed by OJK Regulation Number 1/POJK.07/2013, which aims to create a reliable consumer protection system. The implementation focuses on five core principles: transparency, fair treatment, reliability, data confidentiality and security, and accessible dispute resolution. However, OJK faces significant implementation challenges due to several limitations in their authority and regulatory framework. In response to these challenges, OJK has implemented various measures to combat illegal P2P lending. These include maintaining and publishing lists of registered and licensed P2P lenders on their official website, conducting public education about illegal P2P lending identification, and regular information dissemination through formal channels. They also implement closure procedures for illegal platforms, coordinate with the Ministry of Communication and Information for blocking illegal applications, conduct selective checks for new P2P lending registrations, implement special provisions for P2P lending payment systems, and collaborate with the Criminal Investigation Unit for cybercrime cases.³⁵

³⁴ Ardhana, A. S., & Kasim, N. M. (2022). "Illegal Fintech lending (Review of financial services authority regulation number: 77/Financial services Authority.01/2016)". *Damhil Law Journal*, 1(1), 55. <https://doi.org/10.56591/dlj.v1i1.1749>

³⁵ THE FINANCIAL SERVICES AUTHORITY REGULATION NUMBER 22/POJK.04/2014

Despite these efforts, OJK faces both normative and non-normative challenges. The normative challenges include the absence of regulations regarding P2P lending interest rates, limited law enforcement capacity for illegal P2P lending, lack of criminal provisions for unauthorised P2P lending, and regulatory limitations as provisions are only at the OJK regulation level. Non-normative challenges encompass difficulties in controlling illegal P2P loans due to rapid proliferation, limited public literacy regarding P2P lending, high public demand for illegal P2P lending due to easier access, and the simple application/website creation process enabling rapid illegal platform creation.³⁶ While the economic benefits of regulated P2P lending are notable, contributing IDR 60 trillion to Indonesia's GDP and creating 362,312 jobs, the regulatory response has required extensive coordination among multiple institutions. This coordination is facilitated through the Investment Alert Task Force (SWI), which involves various ministries and law enforcement agencies working together to address illegal lending practices.³⁷

A particular implementation challenge lies in OJK's limited authority regarding illegal P2P lending. The regulator can only take action against registered and licensed platforms, while illegal operators fall outside their direct jurisdiction. This limitation led to the formation of the SWI, which works to prevent and address unlawful actions in fundraising and investment management through fintech platforms.³⁸ Authorities have made efforts to establish organisations like AFPI to support and regulate fintech P2P lending in Indonesia. AFPI serves as a platform for P2P lending entrepreneurs, providing guidance, resources, and a framework for compliance with regulations. This initiative aims to foster a safer and more transparent lending environment, ensuring that both lenders and borrowers are protected. By working under the oversight of the Financial Services Authority (OJK), AFPI helps to promote ethical practices, consumer education, and the development of industry standards in the P2P lending sector. The AFPI has the vital role in ensuring that its members adhere to the regulatory standards set by the Financial Services Authority (OJK). This includes conducting regular assessments and audits of member platforms to verify compliance with laws and ethical guidelines. AFPI has undertaken numerous initiatives to fulfil its responsibilities, including the launch of information channels and a customer complaints platform known as FP2PL (JENDELA). The organisation has also implemented standardisation practices and certification processes for risk management and billing operations, along with establishing a code of conduct to guide its business activities in P2P lending.³⁹

CONCLUSION

Based on the studies that have been done, shows the importance of customer protection in Indonesia's P2P lending industry, it helps in preventing over-indebtedness from happening. Unprotected borrowers risk taking on loans they can't afford, leading to financial hardship and potential social issues. Protects against unethical debt collection practices and maintains financial system stability. Although OJK regulations and industry associations like AFPI exist and are effective in helping the lenders and borrowers to make the right decision, significant gaps require improvement. OJK can enhance regulations on handling the illegal platforms that

³⁶Imron, A. (2021). "Ojk's role and implementation in eradicating illegal FinTec practices". SSRN Electronic Journal. <https://doi.org/10.2139/ssrn.3961615>

³⁷ Amrillah, M. K., & Falianty, T. A. (n.d.). "Apakah P2P Lending Berpengaruh Terhadap Pertumbuhan Ekonomi Daerah? Bukti dari Provinsi-Provinsi di Pulau Jawa". <https://doi.org/10.21107/pamator.v17i1.24324>

³⁸Pratiwi, R., Prabowo, M. S., Nugroho, M., & Wardhani, W. N. (2022). "Fraud risk in peer lending Fintech transactions: The role of consumer protection regulation in Indonesia". *International Journal of Social Science and Business*, 6(4), 469-477. <https://doi.org/10.23887/ijssb.v6i4.46511>

³⁹ Gladden, M., & Atalim, S. (2020). "Authority of Asosiasi Fintech Pendanaan Bersama Indonesia (AFPI) in determining the amount of loan interest rates limit in peer to peer lending (P2P Lending) business activities. Proceedings of the 2nd Tarumanagara International Conference on the Applications of Social Sciences and Humanities" (TICASH 2020). <https://doi.org/10.2991/assehr.k.201209.117>

are available by providing public education campaigns and stronger collaboration with law enforcement. By addressing these challenges, Indonesia can create a more secure and trustworthy P2P lending environment for all participants.

Suggestion

1. For OJK to establish a regulation, it is essential that P2P lending companies verify each borrower's repayment capacity, taking into account the loan amount, interest rate, and repayment period
2. Launch comprehensive educational programs to help consumers understand P2P lending risks, benefits, and how to identify legitimate platforms.
3. Strengthen enforcement against illegal platforms through increased supervision and collaboration with law enforcement agencies.
4. All P2P lending platforms must provide clear and transparent information about loan terms, interest rates, fees, and associated risks.
5. Establish a responsive complaint handling system that ensures quick and effective resolution of consumer issues.
6. Implement higher minimum capital requirements to ensure only financially stable companies can operate P2P lending services.
7. Conduct thorough fit and proper tests for all management and shareholders to verify their qualifications and integrity.
8. Develop specific regulations for micro-loans with appropriate interest rate caps and flexible payment terms.
9. Collaborate with fintech associations to establish industry best practices and promote compliance among member companies.

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