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The Concept and Development of Peer-To-Peer Lending as a Method of Digitalizing Finance in Indonesia (Evaluation of Legal Protection for Borrowers and Lenders)

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Abstract

In recent years, Peer-to-Peer Lending and other forms of financial technology in Indonesia have seen significant expansion. However, the existing legal problems call for a specific, all-encompassing statute to safeguard all parties participating in fintech deals. The legal issues and obstacles encountered by Peer-to-Peer Lending are explored via the lens of a normative legal approach, including philosophical and analytic analysis. The findings highlight a number of critical problems that might benefit from a robust legal framework. To begin, there must be a comprehensive Fintech Law that covers all aspects of fintech business to ensure that all stakeholders are adequately protected. For this legislation to accurately represent the hopes and requirements of all parties involved, stakeholder input throughout the writing process is crucial. To combat the issue of unlawful fintech and safeguard everyone's interests, authorities like the OJK and BI must increase their oversight. The fintech industry also needs its own alternative dispute resolution organization. Third, while crafting legislation, it's crucial to keep financial security and consumer safety in mind. There needs to be better safeguards for user data, interest regulation and collecting procedures, openness, and conflict resolution processes. Increased financial knowledge and efficient law enforcement are also critical to making the P2P lending industry safe for all participants. The growth and development of the fintech industry relies on both regulatory flexibility and market competition. The Peer-to-Peer Lending business in Indonesia has the ability to expand healthily and inclusively, benefiting the whole society and economy if these challenges are addressed via good legislative frameworks and efficient coordination between regulators and stakeholders.

Keywords: Peer-to-Peer Lending, Fintech, Legal Protection

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Introduction

New studies on rapidly evolving areas of finance technology like online lending are a direct result of the merging of IT and banking in emerging economies. Financial inclusion and regulatory preparedness are only two examples of the outcomes that have attracted academic attention as they relate to the interplay between financial goods and services, technology, risk, and institutions.³

One of the most exciting developments in Indonesia's financial sector is the use of P2P lending-based financial technology, or P2PL-based Fintech. P2P-based Fintech provides an option for those who have never had bank accounts but who are otherwise technically savvy. Therefore, young individuals in business make up the bulk of its user base. Lenders, Organizers, and Borrowers are the three main players in P2PL-based Fintech. However, in reality, the lender's contact with the organizer is restricted to a power of attorney, and the lender's relationship with the loan's receiver is a debtor-creditor relationship.⁴

Fintech's global reach and technologically enabled ability to function across jurisdictional borders means that its growth has an impact not only on international law but also on Indonesian law.⁵ While advancements in financial technology have been widespread, they have been quite different in recent years depending on where in the globe you happen to be. This wide range of fintech products may be attributed to variations in economic growth and the make-up of international financial markets. The correlation between national income and fintech credit activity is clear in this case. Countries with looser banking restrictions also have higher quantities of fintech lending.⁶

New studies on rapidly evolving areas of finance like internet lending are the result of the merging of IT and banking in emerging economies.⁷ To prepare for the increased digitalization of finance, academics have focused on the interplay between financial goods and services, technology, risk, and institutions, and the resulting results.⁸

One of the most exciting developments in Indonesia's financial sector is the use of P2P lending-based financial technology, or P2PL-based Fintech. P2P-based Fintech provides an alternative

³ Robin Hui Huang, "Online P2P Lending and Regulatory Responses in China: Opportunities and Challenges," *European Business Organization Law Review* 19, no. 1 (March 1, 2018): 64, <https://doi.org/10.1007/S40804-018-0100-Z/METRICS>.

⁴ S Anita et al., "Legal Protection of Lenders in the Implementation of Financial Technology Based on Peer to Peer Lending," *KnE Social Sciences* 3, no. 13 (March 31, 2019): 1305, <https://doi.org/10.18502/KSS.V3I13.4286>.

⁵ Nuzul Rahmayani, "Tinjauan Hukum Perlindungan Konsumen Terkait Pengawasan Perusahaan Berbasis Financial Technology Di Indonesia," *Pagarhyuang Law Journal* 2, no. 1 (2018): 25, <https://doi.org/10.31869/PLJ.V2I1.887>.

⁶ Frost Jon Stijn Claessens and Turner Grant and Feng Zhu, "Fintech Credit Markets around the World: Size, Drivers and Policy Issues," *BIS Quarterly Review*, No. September, 2018, p. 30.

⁷ Douglas W. Arner, Janos Barberis, and Ross P. Buckley, "The Evolution of FinTech: A New Post-Crisis Paradigm," *Georgetown Journal of International Law* 47 (2015): 1271, <https://heinonline.org/HOL/Page?handle=hein.journals/geojintl47&id=1282&div=&collection=>

⁸ Zavolokina and Liudmila, "The Adoption of Blockchain in the Financial Industry: Theories, Applications and Prerequisites," *Electronic Markets* 30 (2020): 99.

for those who have never had bank accounts but who are otherwise technically savvy.⁹ Therefore, young individuals in business make up the bulk of its user base. Lenders, Organizers, and Borrowers are the three main players in P2PL-based Fintech. In reality, however, the only legal connection created between the lender and the organizer is a power of attorney, and the only legal relationship formed between the lender and the borrower is one of debt.

In general, the development of fintech does not only affect laws in the world but also affects the Indonesian legal system, this is because the fintech industry reaches regional boundaries with technology-based capabilities that are able to operate across jurisdictional boundaries. Fintech has developed rapidly throughout the world, in recent years the development of fintech has varied greatly in various countries. This variety of fintech reflects differences in economic development and the structure of global financial markets. This condition shows the higher the income of a country and the greater the fintech credit activity. Fintech credit volumes are also larger in countries with less stringent banking regulations.

The growth of financial technology is very rapid, including registered and licensed fintech in Indonesia, totaling 146 fintech companies as of May 4, 2021, while there are 338 illegal fintechs.¹⁰ This condition, the government should be followed by the birth of adequate laws and regulations to support it. These regulations are meant to provide security for all stakeholders regarding financial practices. Previously existing legal regulations were still very limited regarding regulation and legal protection of fintech transactions, according to the Deputy Commissioner of the Financial Services Authority Institute and Digital Finance, stating that fintech does not yet have a law, under such conditions it is necessary to enact a law on fintech to clarify its position. This concerns an explanation of what fintech is, then the scope of the commodity, as well as who regulates it, what is required and prohibited, all of this must be clear.¹¹ This range of construction coverage must include protection and regulation of Borrowers and Lenders in order to provide fair protection for both.

In light of these considerations, the Financial Services Authority (OJK) and Bank Indonesia (BI) have issued numerous relevant regulations to safeguard fintech transactions as legal regulations, such as POJK No. 77/POJK.01/2016 concerning Information Technology-Based Money Lending Services. Proposed Ordinance No. 13 of 2018 Relating to Financial Sector Digital Innovation. The Crowdfunding Services and Online Information Technology-Based Share Offerings Act (POJK 37 of 2018). Financial Technology Implementation Public Bulletin No. 19 for 2017. Circular No. 20 for the Year 2018 Deals With Digital Currency.

Since the Financial Services Authority's regulations and the Bank of Indonesia's regulations are considered to be administrative in nature, the sanctions that can be imposed in accordance with these regulations cannot protect all consumer rights in the event of a violation of law by Fintech. This is due to the fact that in the case of a breach by Fintech, the OJK's maximum consequence

⁹ Kuncoro and Haryo, "Peer-to-Peer Lending Issues in Indonesia: Regulatory Framework and Empirical Data," *Journal of Financial Regulation and Compliance* 26, no. 3 (2018): 379.

¹⁰ "Financial Technology," accessed May 19, 2023, <https://www.ojk.go.id/id/kanal/iknb/financial-technology/Default.aspx>.

¹¹ F Sari, "Perjelas Landasan Hukum, Ojk Dorong Pembentukan UU Fintech," *Kontan.co.id*, 2019.

is the revocation of the registered mark and the revocation of the license, rather than criminal penalties or fines.

The lack of rules that can cover both traditional fintech and Indonesian Sharia Fintech is another issue linked to financial technology, as stated by the Deputy Commissioner of the Financial Services Authority. Ronald Yusuf Wijaya, chairman of the Indonesian Sharia Fintech Association (AFSI), has requested that the Financial Services Authority (OJK) establish more comprehensive guidelines for the use of financial technology. He claims that the current framework for regulating fintech implementation is inadequate.¹²

The House of Representatives' statement echoes this sentiment, saying that there are currently no laws governing digital financial activities like fintech and that the BI and OJK must thus conduct vast and active oversight of the fintech business.¹³ Several associated rules, including those from the Financial Services Authority (OJK) and Bank Indonesia (BI), and/or other regulations, have been lacking with respect to financial technology transactions until now.

In connection with the description above, there are several problems that arise along with the growth of the fintech industry in Indonesia:

1. Lack of adequate legislation

Currently, there is no law that specifically regulates fintech in Indonesia. Even though OJK and BI have issued several related regulations, these regulations are still considered to be administrative in nature and not sufficient to provide comprehensive legal protection for all stakeholders involved in fintech transactions.

2. Ambiguity in the definition and scope of fintech

The absence of a law on fintech has resulted in ambiguity in the definition, scope of commodities, and the roles and responsibilities of parties that regulate the fintech industry.

3. Unfair protection for Borrowers and Lenders

The current regulations do not cover fair protection for both parties in fintech transactions, namely Borrowers and Lenders.

4. There are no regulations that accommodate Sharia Fintech

The current regulations have not been able to accommodate the needs of both conventional fintech and Indonesian Sharia Fintech.

5. The sanctions are not strict enough

The sanctions provided in the existing regulations are not strict enough and do not protect consumer rights as a whole. In OJK regulations, for example, the maximum sanction given is only revocation of registered marks and revocation of permits, without criminal sanctions or fines.

A fintech law (RUU) for the 2021 national legislative has to be quickly initiated and drafted by the Indonesian People's Representative Council (DPR RI), the Ministry of Law and Human Rights, the Financial Services Authority (OJK), and Bank Indonesia (BI). Promote and implement it so that Indonesia's fintech industry may flourish. An alternative dispute resolution

¹² Retno Wulandhari, "AFSI: Peraturan OJK Belum Mewadahi Fintech Syariah | Republika Online," 2019, <https://ekonomi.republika.co.id/berita/ekonomi/syariah-ekonomi/19/08/22/pwmq1n370-afsi-peraturan-ojk-belum-mewadahi-fintech-syariah?>

¹³ Rofiq Hidayat, "DPR Terbuka Jika Industri Fintech Diatur UU, Tapi....," 2019, <https://www.hukumonline.com/berita/a/dpr-terbuka-jika-industri-fintech-diatur-uu--tapi-lt5e9e0b2aec3ed/>.

body tailored to the fintech industry is something that OJK and BI need to get started on right now. The Ministry of Finance, the Financial Services Authority (OJK), Bank Indonesia (BI), the Indonesian Fintech Association (AFI), the Indonesian Joint Funding Fintech Association (AFSI), and Private Business should all be involved in the legislation process to design a fintech law that accommodates the hopes and participation of relevant stakeholders while ensuring realistic implementation.

Finance technology (fintech) players' willingness to break the law is plainly not deterred by the lack of specific fintech legislation that are still in place. Inadequate legal protection for vulnerable people is a direct consequence of unlawful fintech activity. If this issue isn't dealt with properly and adequately, it might have a devastating effect on the economy.¹⁴

Indonesia desperately needs a robust legal framework in the form of a legislation in order to address the extremely significant issues surrounding fintech and the existing absence of comprehensive regulation for the sector. Regulations from the Bank of Indonesia (PBI) and the Financial Services Authority (POJK) focus only on technical aspects of the business and hence have little legal weight. The fintech legislation not only safeguards the sector, but also serves as a legal mitigation for concerned parties, protecting them from a range of possible hazards.¹⁵ Maintaining financial stability, bolstering consumer protection, and fostering digital economy growth are all possible thanks to fintech legislation.

There are numerous illicit fintechs in the industry 4.0 space, and the collection method often involves harsh language, sexual harassment, excessively high loan interest rates, and the theft of sensitive consumer data. During the course of its implementation. When it comes to legal policy, only OJK receives strict oversight. However, the Financial Services Authority's (FSA) less active role in supervising and providing legal protection still presents issues that might have an effect on financial inclusion. Additionally, consumers of fintech services are not adequately protected by the law. Since Indonesia does not yet have a Special Fintech Law, only technical restrictions have been established by BI and OJK, demonstrating the country's poor legal regulation.

Fourth, focused on consumer protection and financial stability in drafting the Fintech Law. A good legal framework can help maintain financial stability, strengthen consumer protection, and promote growth in the digital economy. Fifth, effective law enforcement through the more active role of OJK in protecting the rights of consumers and users of fintech services. Better coordination between OJK and BI in enforcing regulations is also important to ensure the fintech industry grows healthily and inclusively.

By addressing these issues through sound legal frameworks and effective coordination between regulators and stakeholders, the fintech industry in Indonesia has the potential to grow in a healthy and inclusive manner, providing benefits for all of society and the economy.

Based on the description above, this research tries to answer: (1) How is the concept and development of Peer To Peer Lending as a method of financial digitization? And (2) Is the Peer

¹⁴ Sheshadri Chatterjee, "Is Data Privacy A Fundamental Right In India?: An Analysis And Recommendations From Policy And Legal Perspective," *International Journal Of Law And Management* 61, No. 1 (2019), p. 190

¹⁵ Robert H. Rosenblum, Susan A. Gault-Brown, And Amy B. Caiazza, "Peer-To-Peer Lending Platforms: Securities Law Considerations," *Journal Of Investment Compliance* Vol 16, No. 3 (2015), p. 16

To Peer Lending regulatory pattern in Indonesia sufficient to accommodate the legal protection of Borrowers and Lenders?

Literature Review

Research on P2P lending has been conducted in the fields of finance and information technology. The number of research, however, keeps growing. P2P Lending is a novel financial concept that facilitates transactions between investors and borrowers.¹⁶ Digital platforms facilitate peer-to-peer lending by collecting loan applications, which are then reviewed by an investment committee.¹⁷ P2P Lending, as a two-way kind of e-commerce, has drawn scrutiny from the field of risk management. Ability to correctly analyze and screen borrowers for credit risk management.¹⁸ Credit risk may be assessed in a number of ways, some of which include data mining,¹⁹ data mining of borrower profiles for textual features²⁰, and neural network-powered Big Data.²¹ So that P2P lenders can make more accurate forecasts, researchers have performed new research. A two-stage procedure that makes use of neural networks trained in deep learning. In order to anticipate platform default risk, our method extracts keywords from investor comments and uses a BiLSTM-based model. Borrower registration, credit risk assessment, disbursement, invoicing, refund or payment, and lender investment are just some of the P2P Lending business operations that occur outside of the primary emphasis on credit risk management. Recent studies have investigated the role that demographic factors have in investors' (here, lenders') assessments of borrowers' creditworthiness.

Methodology

Based on the questions or ideas brought up, this study is classified as normative legal research. Philosophy, critical analysis, and philosophy provide the basis for this study's conclusions, which seek to generate fresh discoveries as responses to the major challenges identified in the course of

¹⁶ Ryan Randy Suryono, Indra Budi, and Betty Purwandari, "Challenges and Trends of Financial Technology (Fintech): A Systematic Literature Review," *Information* 2020, Vol. 11, Page 590 11, no. 12 (December 21, 2020): 1, <https://doi.org/10.3390/INFO11120590>.

¹⁷ Mesut Pişkin and Merve Can Kuş, "Islamic Online P2P Lending Platform," *Procedia Computer Science* 158 (January 1, 2019): 416, <https://doi.org/10.1016/J.PROCS.2019.09.070>.

¹⁸ He Liu et al., "Platform Competition in Peer-to-Peer Lending Considering Risk Control Ability," *European Journal of Operational Research* 274, no. 1 (April 1, 2019): 283, <https://doi.org/10.1016/J.EJOR.2018.09.024>.

¹⁹ Shousong Cai and Jing Zhang, "Exploration of Credit Risk of P2P Platform Based on Data Mining Technology," *Journal of Computational and Applied Mathematics* 372 (July 1, 2020): 112, <https://doi.org/10.1016/J.CAM.2020.112718>.

²⁰ Weiguo Zhang et al., "Credit Risk Evaluation Model with Textual Features from Loan Descriptions for P2P Lending," *Electronic Commerce Research and Applications* 42 (July 1, 2020): 431, <https://doi.org/10.1016/J.ELERAP.2020.100989>.

²¹ Yiping Guo, "Credit Risk Assessment of P2P Lending Platform towards Big Data Based on BP Neural Network," *Journal of Visual Communication and Image Representation* 71 (August 1, 2020): 103, <https://doi.org/10.1016/J.JVCIR.2019.102730>.

the investigation.²² It will also be studied utilizing descriptive-analytic techniques, including a discussion of relevant legal theory and best practices in law enforcement.²³

Results and Discussion

The Concept And Development Of Peer To Peer Lending As One of the Financial Digitalization Methods

Using data from more than 178,000 loan postings in China, researchers discovered that borrower reputation is the most important factor for lenders to consider when making P2P loan transactions. P2P lending systems' demise may be heavily influenced by the balance of political and financial power, according to recent studies. When platforms collapse, it's usually because their owners go insolvent or just disappear with their investors' money.²⁴

The earliest P2P marketplaces appeared in industrialized nations, which often had more developed financial sectors, more established credit core systems, and stronger law enforcement. If banks are stingy with lending money (only to tamp down on non-performing loans), the banking sector's credit will remain untouched.²⁵

Financing gaps emerged as a consequence of the global financial crisis and the subsequent authorized reaction, which tightened the regulatory system for financial institutions.²⁶ Fintech 2.0 refers to the growth of Fintech in the financial services sector, which in Indonesia includes banking, capital markets, and the non-bank financial sector. Fintech 3.0, on the other hand, is the Fintech created by new businesses.²⁷

There were concerns that the lack of regulations for Fintech activity in Indonesia prior to 2016 may do damage to the country's society. So, at the beginning of 2016, OJK issued rule number 77 to govern P2P Lending. To develop a licensing framework for this industry, the Financial Services Authority has also initiated the formation of a Fintech Lending Directorate. Amarta P2P Lending is one such platform that has been granted OJK approval. Lenders may start making

²² Ishaq, *Metode Penelitian Hukum Dan Penulisan Skripsi, Tesis, Serta Disertasi*, ALFABETA, C, 2017, 45.

²³ Peter Mahmud Marzuki, *Penelitian Hukum, Edisi Revisi, Cetakan Ke-12* (Jakarta: Kencana, 2016), 46.

²⁴ Xiangling Fu et al., "Listening to the Investors: A Novel Framework for Online Lending Default Prediction Using Deep Learning Neural Networks," *Information Processing & Management* 57, no. 4 (July 1, 2020): 108, <https://doi.org/10.1016/J.IPM.2020.102236>.

²⁵ Michael Siek and Andrew Sutanto, "Impact Analysis of Fintech on Banking Industry," in *Proceedings of 2019 International Conference on Information Management and Technology, ICIMTech 2019* (Institute of Electrical and Electronics Engineers Inc., 2019), 359, <https://doi.org/10.1109/ICIMTECH.2019.8843778>.

²⁶ Bina Nusantara et al., "Understanding Peer-to-Peer Lending Mechanism in Indonesia: A Study of Drivers and Motivation," *ICIC Exp. Lett. Part B: Applications* 11, no. 3 (2020): 269, <https://doi.org/10.24507/icicelb.11.03.267>.

²⁷ U. Yunus, "A Comparison Peer to Peer Lending Platforms in Singapore and Indonesia," *Journal of Physics: Conference Series* 1235, no. 1 (June 1, 2019): 012008, <https://doi.org/10.1088/1742-6596/1235/1/012008>.

a profit by lending as little as IDR 3 million (222 USD) to rural women business owners around the clock.²⁸

However, the P2P Lending network was originally envisioned as a way to help finance small and medium-sized businesses. Sharia-compliant profit-sharing and interest-free loans are two examples of an alternate method of payment. Whether or whether a small or medium-sized enterprise (SME) is successful in securing a loan depends on a number of factors. However, there is a hole in Kohardinata's findings.²⁹ prove that the expansion of peer-to-peer lending in Indonesia has had no discernible impact on the expansion of bank credit. This is because platform companies often join the market through avenues that might be more appealing to consumers. After all, it is in the early stages of refining the quality of its offerings.

Several adoption models emerged, all of which found that perceived advantages significantly affected adoption. The development of a user-friendly system and the introduction of novel features are also important factors in boosting adoption. The behavioral intention to utilize P2P lending systems may be affected by the factors of performance expectation, social influence, and effort expectation. The fintech lending model has expanded beyond traditional consumer loans into areas like financing for vacations and other forms of long- and short-term credit.³⁰

Despite the positive effects of Fintech, 1330 individuals complained to the Legal Aid Institute (LBH) about 89 P2P loan applications that flouted the law or abused people's rights. Loan service providers often abuse customers' personal information.³¹ Ineffective p2p lending regulatory implementation is mostly attributable to substantive rules that do not govern interest rates and the collection process, notably in Indonesia.

Let's analyze how P2P lending has evolved in a number of different nations. P2P lending sites like Zopa (UK), LendingClub (US), and PPDai (China) are expanding rapidly.³² A US Bank Announces More than \$50 billion is held by LendingClub. Meanwhile, Prosper.com attracted over a million users, who took out over 32,000 loans for over \$193 million.³³ PPDai, on the other hand, has 500,000 users and is the most popular site in China. Concerns have been raised,

²⁸ A. D. Saputra et al., "Empowering Women Through Peer to Peer Lending: Case Study of Amarta.Com," in *Proceedings of 2019 International Conference on Information Management and Technology, ICIMTech 2019* (Institute of Electrical and Electronics Engineers Inc., 2019), 618–22, <https://doi.org/10.1109/ICIMTECH.2019.8843721>.

²⁹ C Kohardinata and N Soewarno, "INDONESIAN PEER TO PEER LENDING (P2P) AT ENTRANT'S DISRUPTIVE TRAJECTORY," *Verslas: Teorija Ir Praktika* 21, no. 1 (2020): 104–9.

³⁰ Trisadini Prasastinah Usanti, Fiska Silvia, and Anindya Prastiwi Setiawati, "Dispute Settlement Method for Lending in Supply Chain Financial Technology in Indonesia," *Int. J. Supply Chain Management* 9, no. 3 (2020): 439, <https://core.ac.uk/download/pdf/328146334.pdf>.

³¹ Yunus, "A Comparison Peer to Peer Lending Platforms in Singapore and Indonesia."

³² Julapa Jagtiani and Catharine Lemieux, "Do Fintech Lenders Penetrate Areas That Are Underserved by Traditional Banks?," *Journal of Economics and Business* 100 (November 1, 2018): 43–54, <https://doi.org/10.1016/J.JECONBUS.2018.03.001>.

³³ Dongyu Chen, Fujun Lai, and Zhangxi Lin, "A Trust Model for Online Peer-to-Peer Lending: A Lender's Perspective," *Information Technology and Management* 15, no. 4 (December 1, 2014): 241, <https://doi.org/10.1007/S10799-014-0187-Z/TABLES/6>.

however, concerning the accuracy of borrowers' credit histories in China's p2p lending sector. Most borrowers would rather have greater loan amounts rather than lower interest rates. However, they claim that Singapore's peer-to-peer lending platform is more open and honest than Indonesia's. To do this, one must use a variety of methods, financing strategies, and risk reduction tools to ensure smooth financial transactions.

An in-depth explanation of P2P Lending and its various aspects. To complement the analysis of this study with the legal construction of establishing a P2P Lending special law for the legal protection of borrowers and lenders, we need to look at existing regulations and how they can better protect both parties.

The legal construction of the formation of special P2P Lending laws is essential to maintain trust and security in the P2P Lending system. In the Indonesian context, the Financial Services Authority (OJK) has made efforts to regulate P2P Lending through OJK regulation number 77 of 2016.³⁴ However, there are still several challenges in the implementation of these regulations, especially in terms of violations of law and human rights, as well as misuse of user data.³⁵

A special P2P Lending law can be more effective if it covers the following aspects:

1. **User data protection:** With more and more transactions being made online, the protection of user data is becoming more and more important. P2P Lending specific laws should clarify what is considered data misuse and provide clear sanctions for such violations.
2. **Interest regulation and collection mechanism:** Clear regulations regarding interest rates and interest collection mechanisms can help prevent abuse by lenders and provide justice for borrowers.
3. **Transparency:** P2P Lending platforms must be transparent about the risks and benefits of lending, as well as the credit scoring process. This can help borrowers and lenders make more informed decisions.
4. **Dispute resolution mechanism:** P2P Lending specific laws should clarify dispute resolution mechanisms between borrowers and lenders, as well as between users and P2P Lending platforms.

P2P Lending has developed rapidly as an alternative to financial services in many countries, including Indonesia. However, these developments also bring legal and ethical challenges that must be faced. At this point, a special P2P Lending law becomes essential to protect the rights and interests of borrowers and lenders.

The law must consider various aspects, including user data protection, interest regulation and collection mechanisms, transparency, and dispute resolution mechanisms. This requires cooperation between governments, regulators, the P2P Lending industry, and society to create a fair and safe environment for all parties involved. In addition, practical law enforcement efforts are also crucial in preventing and dealing with violations in the P2P Lending system. While technological and financial innovations such as P2P Lending bring many benefits, it is also essential to ensure that these technologies are not abused and remain within the bounds of applicable law and ethics.

³⁴ Otoritas Jasa Keuangan RI, "Peraturan OJK Nomor 77 Tahun 2016 Tentang Layanan Pinjam Meminjam Uang Berbasis Teknologi Informasi," Pub. L. No. 70 (2016).

³⁵ LBH, "Laporan Tahunan LBH Tentang Pelanggaran Hak Asasi Manusia Dalam P2P Lending," 2023.

Along with developing and improving the quality of P2P Lending products and services, there is hope that P2P Lending will continue to contribute significantly to meeting the needs of the public for financial assistance, especially for small and medium enterprises. P2P Lending can become integral to a healthy and sustainable financial ecosystem with the proper legal framework and effective law enforcement.

Ideal Peer To Peer Lending regulatory pattern in Indonesia in accommodating the legal protection of Borrowers and Lenders

The ideal arrangement pattern of Peer to Peer (P2P) Lending in Indonesia requires a comprehensive and dynamic approach, given the rapid development of the fintech sector and the challenges that arise with it. A critical aspect of this arrangement is how best to accommodate legal protection for borrowers and lenders.

Based on the background previously discussed, it is essential to note that P2P Lending has emerged as an innovative solution to meet the needs of financial services in Indonesia. The P2P Lending Market enables individuals and businesses to borrow and lend money directly through digital platforms, eliminating the role of banks and other financial institutions as intermediaries.³⁶ This has opened up access to financial services for those who previously did not have access to the traditional banking system, such as small and medium enterprises (SMEs). However, the rapid development of P2P Lending also brings new challenges in terms of legal protection for borrowers and lenders. Issues such as data misuse, uncontrolled interest rates, and lack of transparency in the lending process have become serious concerns.³⁷ Therefore, arrangements must ensure that P2P Lending platforms maintain the confidentiality and integrity of their users' data.

Second, contracts must include control over interest rates and interest collection mechanisms. This is important to prevent usury or riba practices, which can harm borrowers, and to ensure that lenders get a fair return on their investment.³⁸ Therefore, arrangements must ensure that P2P Lending platforms maintain the confidentiality and integrity of their users' data. Second, contracts must include control over interest rates and interest collection mechanisms. This is important to prevent usury or riba practices, which can harm borrowers, and to ensure that lenders get a fair return on their investment.³⁹ Third, the ideal regulatory pattern should promote transparency at all levels of P2P Lending operations. This includes the credit scoring process, the loan's risks and

³⁶ L.P. Nugroho, "Fintech (Financial Technology): Perlindungan Hukum Bagi Konsumen Dan Implikasinya Terhadap Perekonomian Indonesia," *Jurnal Hukum Dan Pembangunan*, 2017, 287–235.

³⁷ I.M. Pranata and G. Irianto, "Legal Protection for Consumers in Online Peer-to-Peer Lending in Indonesia," *Asian Journal of Law and Jurisprudence* 1, no. 2 (2019): 35–50.

³⁸ D. Satria and E. Yulianto, "Data Protection in Financial Technology (Fintech) Services in Indonesia," *International Journal of Civil Engineering and Technology* 9, no. 1 (2018): 270.

³⁹ B Suryomurti, "Regulating P2P Lending in Indonesia: Learning from the Chinese Regulatory Framework," *Indonesian Journal of International & Comparative Law* 6, no. 1 (2019): 93.

rewards, and the loan's terms and conditions. This transparency will help borrowers and lenders make informed decisions.⁴⁰

Finally, the ideal regulatory pattern should include an effective and fair dispute resolution mechanism. In the case of a dispute between the borrower and the lender, there must be a transparent and honest process for resolving the conflict.⁴¹ To achieve this ideal regulatory pattern, a collaboration between the government, regulators, the P2P Lending industry, and other parties involved in this ecosystem is required. Governments and regulators, such as the Financial Services Authority (OJK), must actively oversee and regulate P2P Lending operations to ensure they comply with set regulations and standards. On the other hand, the P2P Lending industry itself must commit to operating responsibly and transparently, prioritizing the interests and security of their users.⁴²

There is an urgent need for arrangements that strengthen legal protections for borrowers and lenders and encourage transparency and strong operational ethics among P2P Lending platforms. As one of the main challenges, the protection of user data requires special attention. In this digital era, personal data is often misused by technology companies and other malicious actors. Therefore, there is an urgent need for laws and regulations that strengthen data protection and stricter enforcement of data privacy breaches.

Furthermore, controlling interest rates and collection mechanisms are also essential aspects of P2P Lending arrangements. Uncontrolled interest rates and unfair collection mechanisms can burden borrowers and lead to usual practices. Therefore, more robust oversight and fair enforcement of rules are needed to protect borrowers' interests while ensuring lenders receive a reasonable return on their investment.

Transparency in P2P Lending operations is also essential. The credit assessment process, the loan's risks and benefits, and the loan's terms and conditions must be clear and easily understood by borrowers and lenders. This will help both parties make informed decisions and protect themselves from unnecessary risk. A fair and effective dispute resolution mechanism is critical to the ideal arrangement for P2P lending. A transparent and fair settlement process is vital when there is a dispute between the borrower and the lender.

In addition, this multi-stakeholder approach must be balanced with efforts to increase financial literacy among P2P Lending users. Borrowers and lenders must be given a sufficient understanding of the risks and benefits associated with P2P Lending services. This will help them make more informed decisions and protect themselves from potentially harmful practices.⁴³

⁴⁰ I Irawan, "Transparency in Online Peer to Peer Lending in Indonesia," *Journal of Legal, Ethical and Regulatory Issues* 23, no. 5 (2020): 8.

⁴¹ L. Widyawati, "Dispute Resolution in Online Peer to Peer Lending in Indonesia," *Journal of Advanced Research in Dynamical and Control Systems* 12, no. 2 (2020): 197.

⁴² K.P. Putri and G. Irianto, "The Role of Financial Services Authority in Supervising Peer to Peer Lending in Indonesia," *Journal of Law, Policy and Globalization* 101 (2021): 54.

⁴³ A Kurnia and A Wibowo, "Financial Literacy in the Peer-to-Peer Lending System: A Case Study in Indonesia," *Journal of Asian Finance, Economics and Business* 7, no. 7 (2020): 377.

Equally important, there must be room for further innovation and development in the P2P Lending sector. Regulation and oversight must be flexible enough to allow for the development of new technologies and business models while maintaining security and system integrity. This ideal arrangement pattern will enable P2P Lending to continue to grow and develop in Indonesia while ensuring that the interests and rights of borrowers and lenders are adequately protected. This way, P2P Lending can continue contributing to financial inclusion and economic growth in Indonesia.

Several essential aspects must be reviewed and discussed further to create an ideal legal construction in P2P Lending arrangements in Indonesia. First, regarding the protection of user data, relevant articles in existing regulations, such as the ITE Law, must be strengthened and clarified to cover specific aspects of P2P Lending. The principle of "privacy by design" can be adopted, whereby P2P Lending platforms must build data protection into their system design from scratch. In addition, stricter sanctions for data breaches can also be considered to provide better protection for users.⁴⁴

Second, legislation must impose clear and reasonable limits on how interest rates and interest collecting systems may be set and used. To this purpose, we may study examples from the United Kingdom and Australia, both of which limit the interest and fees that lenders can collect. Finally, rules should make it simple for borrowers to understand credit evaluation, loan costs and advantages, and other important information. The European Union's Consumer Protection Act, for instance, mandates openness on all loan costs and conditions.

Fourth, dispute resolution mechanisms must be clarified and strengthened. For example, OJK or other institutions can mediate disputes between borrowers and lenders. This model is similar to the Financial Ombudsman Service in the UK.

In addition to these four points, increasing user financial literacy and regulatory flexibility to enable innovation must also be part of this superior legal construction. By combining all of these elements in one coherent and comprehensive legal framework, we can create a regulatory model for P2P Lending unique to Indonesia, which accommodates legal protection for borrowers and lenders while enabling growth and innovation in the sector. This is the novelty we offer: a model that protects the interests of all parties ensures transparency and fairness, and enables P2P Lending to continue contributing to financial inclusion and economic growth in Indonesia.

Conclusion

The growth of the fintech industry, especially the Peer-to-Peer Lending (P2P Lending) platform in Indonesia, has brought many new opportunities and legal and ethical challenges that must be addressed. One of the main challenges is creating an effective and fair legal framework for all parties involved. Several essential aspects that must be considered in making this legal framework include user data protection, interest regulations and collection mechanisms, transparency, and dispute resolution mechanisms. On the other hand, increasing user financial literacy and

⁴⁴ Graham Greenleaf, "Sheherezade and the 101 Data Privacy Laws: Origins, Significance and Global Trajectories," *Journal of Law, Information and Science* 23 (2014): 271, <https://heinonline.org/HOL/Page?handle=hein.journals/jlinfo23&id=10&div=&collection=>

regulatory flexibility to enable innovation must also be part of this superior legal construction. With the proper legal framework, P2P Lending can continue to grow and contribute to financial inclusion and economic growth in Indonesia. This requires cooperation between the government, regulators, the P2P Lending industry, and society to create a fair and safe environment for all parties involved. The active role and strict supervision of regulators such as OJK and BI are vital. There is also a need for better coordination between regulators and other stakeholders and effective law enforcement. Ultimately, these steps will contribute to the healthy and inclusive growth of the fintech industry in Indonesia, which has the potential to benefit the entire society and economy. Technological and financial innovations such as P2P Lending are beneficial and essential to ensure that these technologies are not misused and remain within appropriate legal and ethical boundaries.

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