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Online Loan Regulation in Indonesia: Challenges and Solutions for the Community

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Abstract

The development of financial technology in Indonesia has driven the growth of online lending services (fintech lending) as an alternative source of funding that is easily accessible to the public. However, behind its benefits, various challenges have emerged, such as the rise of illegal online loans, weak consumer protection, and the increasing risk of default. The regulations implemented by the Financial Services Authority (OJK) and related agencies aim to regulate and supervise these services so that they continue to run in accordance with healthy and fair financial principles. This study discusses the main challenges in implementing online lending regulations, including low financial literacy among the public, unethical collection practices, and limitations in supervision and law enforcement. In addition, this study also outlines various solutions that can be implemented, such as tightening regulations, improving financial education, strengthening data security technology, and providing safer funding alternatives for the public. In conclusion, the success of online lending regulations is highly dependent on the synergy between the government, financial institutions, and the public in creating a more transparent, safe, and beneficial lending ecosystem for the national economy. With the strengthening of regulations and higher public awareness, it is hoped that fintech lending can develop healthily without harming users.

Keywords: Consumer Protection; Fintech Lending; OJK; Online Loans
JEL Classification: D13, I31, J22*

1. Introduction

Finance is an important aspect in the modern era, both for current and future needs. Today's life is very dependent on money, so everyone tries to meet the basic needs of their families. In addition to the existing challenges, technological advances also provide benefits, such as the presence of online loan services. Online loans or Fintech (Financial Technology) is an abbreviation of the words "financial" and "technology" which can be interpreted as an innovation in the field of financial services. The innovations offered by Financial Technology are very broad and in various segments, both B2B (Business to Business) to B2C (Business to Consumer). In recent years, online loan services (pinjol) in Indonesia have experienced quite rapid growth, along with the increasing need for people to access fast and easy financing. Online loans offer convenience without requiring collateral and a simpler process compared to conventional financial institutions. However, behind this convenience, there are various legal problems and challenges faced by the community and regulators.

According to OJK Regulation Number 77/POJK.01/2016, fintech is a financial service that brings together lenders and borrowers through an internet-based electronic system in rupiah currency. In Indonesia, there are various types of fintech, such as crowdfunding, microfinancing, digital payment systems, peer-to-peer (P2P) lending, and aggregators. P2P lending itself is an information technology-based lending service that emerged to help people who do not have access to banking services (unbanked). Online lending services (pinjol) began to develop in Indonesia in 2016 and are widely used by MSMEs. However, fintech itself has been around since 2006. The pinjol business has experienced rapid growth, with total fund distribution increasing from IDR 22 trillion in 2018 to IDR 249 trillion in 2023, according to AFPI data. Peer-to-peer (P2P) lending has also collaborated with banks to distribute People's Business Credit (KUR). Financial technology in Indonesia is classified as a Non-Bank Financial Institution, which plays an important role in the digital economy. Technological advances not only change people's lifestyles, but also encourage innovation in financial services, create new business opportunities, and open up various types of jobs in the modern era.

Financial technology provides convenience for the community, but also poses challenges, especially in terms of consumer protection. Weak regulations in this sector raise concerns about the risks of online loans. In the digital era, many users violate the rules, and negative cases related to online loans are increasingly rampant, especially in 2022

Positive Impact of Online Loans:

a. Loan applications can be made directly through gadgets without having to leave the house.
b. Loan ceilings and tenors are more flexible.
c. The disbursement process is fast and safe.

Negative Impacts of Online Loans:

a. Ease of access makes users complacent.
b. High interest burdens borrowers.
c. Unethical debt collection by debt collectors.
d. Misuse of personal data.
e. Potential to damage social relationships.
f. Fines imposed are often unreasonable.

Although online loans provide great benefits, challenges such as illegal online loans and unethical collection practices must be given serious attention so that these services can develop more safely and responsibly. To overcome the rampant illegal online loans (pinjol), the Financial Services Authority (OJK) is working with various institutions, such as the Ministry of Trade, the Ministry of Communication and Information, the Ministry of Cooperatives and SMEs, the Attorney General's Office, the Indonesian Police, and BKPM. They are strengthening coordination through the Investment Alert Task Force to prevent and handle illegal investment practices, including illegal pinjol.

This task force has two main functions: prevention and legal handling. Prevention efforts are carried out through education, socialization, and monitoring of potential violations of the law. Meanwhile, handling actions include identification, analysis, termination of illegal activities, examination of alleged violations, and monitoring of dangerous sites. In addition, the Task Force also provides recommendations for follow-up actions to ensure that law enforcement is effective. However, the fact is that in the current environment, many online loan users do not get comfort in debt collection. Such as debt collection via telephone or WhatsApp with harsh words, sending fictitious orders, spreading personal data on social media to embarrassing borrowers in the scope of family and work that are not related. So, not a few people who harbor this shame and have an impact on disturbed mental health to the point of ending their lives. Currently, the OJK, Police and authorized institutions do not yet have the power to protect the public in terms of debt collection that is not in accordance with applicable laws and regulations. Not a few have reported, but there have been no further actions in accordance with the rules that have been enforced.

From the background that has been explained previously, in this case community service will focus on two problems, namely: (1) What are the regulations governing online loans in Indonesia?, and (2) What are the challenges faced in implementing online loan regulations in Indonesia, and what solutions can be implemented to improve the security and welfare of the community in using online loans?

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2. Method

This community service activity, in the form of counseling and mentoring, was conducted on January 15, 2025, using a presentation method that included material on online loans, dialogue sessions, and legal consultations regarding online loan collection for the Gandul community in Cinere District, Depok, West Java. The activity was attended by twenty participants. The implementation of this program followed several stages. The first stage was the preparation stage, which involved obtaining permission from partners and collecting relevant data. The next stage was the implementation stage, during which the presentation on online loans was delivered, followed by dialogue sessions and legal consultations for individuals trapped in online loans, particularly concerning legal protection and improper collection procedures. Finally, the reporting stage included compiling the final report after the dialogue and legal consultations with the Gandul community, as well as publishing the results of the community service activity.

3. Result

a. Regulations Governing Online Loans in Indonesia

In Indonesia, online lending services or financial technology (fintech) lending are regulated by the Financial Services Authority (OJK) and several other institutions to ensure security and protection for consumers. The main regulation governing online lending is OJK Regulation Number 77/POJK.01/2016 concerning Information Technology-Based Money Lending Services. This regulation regulates various aspects of fintech lending, including legal requirements, organizer obligations, transparency in agreements, and interest and fine limits. In addition, the government also continues to tighten regulations to address the rampant illegal online loans that often harm the public. OJK, Bank Indonesia (BI), and the Ministry of Communication and Information (Kominfo) play an active role in supervising and taking action against illegal lending platforms. One form of supervision is through the Investment Alert Task Force (SWI), which is tasked with monitoring, providing education, and taking action against online loan organizers who do not have official permits. Regulations also cover aspects of consumer protection, as stated in Law Number 8 of 1999 concerning Consumer Protection. This regulation requires online loan providers to provide clear information regarding interest rates, tenors, additional fees, and consequences of late payments. With this regulation, it is hoped that the public will be better protected from fraudulent practices, misuse of personal data, and unreasonable interest rates. The rise in online loan cases is influenced by internal and external factors. Internal factors include a lack of understanding of information technology, low digital literacy, and weak financial literacy in the community. Meanwhile, external factors include minimal education and empowerment of consumers by service providers and weak supervision from regulators. Therefore, stronger efforts are needed to supervise, educate, and enforce regulations so that the public can use online loan services safely.

In the future, regulations related to online loans will continue to be developed to keep up with the rapid development of the fintech industry. One of the steps taken is the implementation of OJK

Regulation Number 10/POJK.05/2022, which tightens licensing and requires online loan providers to have a minimum capital of IDR 25 billion. This aims to ensure that only companies with high credibility can operate in this sector. With increasingly stringent regulations, it is hoped that online loan services in Indonesia can run more transparently, fairly, and provide greater benefits to the community without causing detrimental risks. However, the active role of the community in choosing legal loan services and increasing financial literacy is also key to creating a healthy and sustainable online loan ecosystem.

Until now, specific data on the level of online loan defaults for 2024 is not yet available. However, based on the information available until the end of 2023, there are several indicators that can provide an overview of the situation of online loan defaults in Indonesia. As of December 2023, the total outstanding national online loans reached IDR 59.64 trillion, with 18.07 million active loan recipient accounts. The province with the highest 90-day Default Rate (TWP90) is West Nusa Tenggara, reaching 5.91%.

In addition, the Financial Services Authority (OJK) report in May 2023 indicated that 21 online lending platforms had a non-performing loan rate above 5%, with total arrears reaching IDR 51.46 trillion, an increase of around 28.1% annually. This phenomenon also has a significant impact on the younger generation. At least 2.6 million people have difficulty repaying online loans, with more than half of them coming from the under-35 age group. Although data for 2024 is not yet available, the trend seen in 2023 shows an increase in the number of loans and default rates. This emphasizes the importance of financial literacy and strict regulations to protect consumers and maintain the stability of the online lending sector in Indonesia.

b. Challenges Faced in Implementing Online Loan Regulations in Indonesia

1) The rise of illegal online loans

One of the main challenges in implementing online lending regulations in Indonesia is the growth of illegal online lending that is difficult to control. Although the Financial Services Authority (OJK) and the Ministry of Communication and Information (Kominfo) routinely block illegal online lending sites and applications, new platforms continue to emerge. The lack of public awareness of the importance of choosing official loan services also exacerbates this problem, making them vulnerable to being trapped in illegal online lending schemes that apply high interest rates and inhumane collection methods.

2) Weak Consumer Protection

Despite the existence of consumer protection regulations, many people experience misuse of personal data, intimidation by debt collectors, and non-transparent interest rates. Some online lending platforms still use unethical data collection practices, such as accessing borrowers' contact lists and photo galleries. The lack of public understanding of their rights as consumers makes legal protection difficult to implement effectively.

3) **Challenges in Supervision and Enforcement**

The increasing number of online lending platforms, both licensed and unlicensed, makes supervision difficult. The Investment Alert Task Force (SWI) is tasked with monitoring and prosecuting violations, but they face limited resources to handle all cases of illegal lending and violations of regulations. In addition, the lack of coordination between various related agencies, such as the OJK, BI, and the police, means that the legal process for online lending violations is often slow.

4) **Regulations Must Continue to Adapt to Technological Developments**

The fintech world is evolving very quickly, while regulations often cannot keep up with the pace of innovation. For example, the emergence of blockchain technology, artificial intelligence (AI), and digital credit scoring systems create new challenges in regulating and ensuring transparency of online lending services. Rigid or slow-to-update regulations can hinder fintech innovation that could actually benefit society.

5) **Default Risk and Industry Stability**

The increasing default rate of online loans (TWP90) is a major challenge for the sustainability of the fintech lending industry. Many borrowers do not have adequate financial literacy, so they are trapped in a cycle of debt that is difficult to pay. If this problem is not handled properly, it will have an impact on the stability of the fintech lending industry, where loan providers face the risk of major losses and public trust in online loans is decreasing.

6) **Limited Financial Education and Literacy**

The level of financial literacy of the Indonesian people is still relatively low. Many people apply for loans without understanding the financial consequences, including interest calculations, late fees, and the risk of default. Lack of financial education causes many individuals to fall into unhealthy lending practices, thus exacerbating the problem of bad debt and misuse of online lending services.

Although online lending regulations in Indonesia continue to be strengthened, the challenges in implementing them are still very large. The rise of illegal online lending, weak consumer protection, limited supervision, rapid technological developments, increasing risk of default, and low financial literacy are some of the factors that make the implementation of regulations not run optimally. Therefore, synergy is needed between the government, regulators, the fintech industry, and the community to ensure that online lending services can develop healthily and provide maximum benefits for the Indonesian economy.

c. **Solutions That Can Be Applied to Improve Security and Public Welfare in Using Online Loans**

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1) **Strengthening Regulation and Law Enforcement against Illegal Online Loans**

One of the main steps to improve security in the use of online loans is to tighten regulations and law enforcement against illegal online loans. The Financial Services Authority (OJK) together with the Ministry of Communication and Information (Kominfo) and the Investment Alert Task Force (SWI) must accelerate the process of blocking and taking legal action against illegal loan platforms that harm the public. In addition, the government needs to introduce stricter penalties for illegal loan business actors, including financial sanctions and criminal penalties for those proven to have committed personal data abuse and intimidating debt collection practices.

2) **Education and Improvement of Public Financial Literacy**

Lack of financial literacy is one of the main causes of people getting trapped in high-interest loans and illegal lending schemes. Therefore, the government, financial institutions, and the private sector need to collaborate in holding financial education programs that target various levels of society, especially vulnerable groups such as students, housewives, and informal workers. The "Smart Loan" campaign can be socialized through social media, seminars, and training to increase public understanding on how to choose safe loan services, understand interest calculations, and manage loans wisely.

3) **Transparency and Standardization of Interest and Additional Fees**

Many people are trapped in loans with non-transparent interest rates or hidden additional costs. To overcome this, OJK needs to implement a policy that requires every online loan provider to provide clear and easy-to-understand information about interest, late fees, and other costs. Online loan platforms must also provide loan simulations that can help prospective borrowers understand the financial consequences before applying for a loan.

4) **Increased Supervision and Strengthening of Security Technology**

To ensure the security of users' personal data, fintech lending companies must implement more sophisticated cybersecurity technology, such as data encryption, dual authentication, and artificial intelligence (AI)-based fraud detection systems. OJK also needs to conduct regular audits of online loan providers to ensure that they do not misuse users' personal data. In addition, there needs to be an easily accessible public reporting platform to report data misuse or collection actions that are not in accordance with the rules.

5) **Development of Safer Funding Alternatives**

In addition to online loans, the government and financial sector must expand public access to safer and more affordable funding sources, such as People's Business Credit (KUR), savings and loan cooperatives, and sharia-based loan services. With more varied funding options, people do not need to rely on high-risk online loans, especially those from illegal platforms.

6) Strengthening the Role of Banking and Cooperation with Fintech

Traditional banks and financial institutions can collaborate with licensed fintech lending to create safer and more affordable loan products. For example, low-interest loan programs for micro and small businesses are distributed through fintech with strict supervision from banks. Thus, the community has wider access to loans that are legal, safe, and in accordance with their needs.

To improve the security and welfare of the community in using online loans, strategic steps are needed that include strengthening regulations, financial education, increasing transparency, technology supervision, and developing safer funding alternatives. With the synergy between the government, regulators, the fintech sector, and the community, it is hoped that the online loan ecosystem can develop healthily and provide benefits without causing detrimental risks to users

Conclusion

Online lending regulations in Indonesia have been implemented through various policies and supervision by the Financial Services Authority (OJK) and related institutions. The presence of this regulation aims to create a safe financial system and protect the public from illegal online lending practices. However, in its implementation, there are still various challenges, such as the rise of illegal online loans, low financial literacy of the public, and weak supervision of unethical collection practices. The main challenges in implementing online lending regulations include low public awareness of the risks of illegal online loans, minimal education on financial and digital literacy, and weaknesses in the consumer protection system. In addition, supervision of fintech lending still faces limitations in prosecuting illegal lenders, who often operate without permits and ensnare the public with predatory lending schemes. To overcome this problem, it is necessary to strengthen regulations, increase financial and digital literacy education, and strengthen data and legal protection systems. The government and related institutions must tighten supervision of online lending services, while the public also needs to be more vigilant in choosing safe and legal financial services. With synergy between regulators, service providers, and the public, it is hoped that the online lending ecosystem in Indonesia can develop healthily, fairly, and provide benefits for public welfare.

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