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Innovation and Regulation: Legal Enablers and Challenges in Indonesia's Digital Banking Lending Ecosystem

Anastasia Zefanya
Master of Notarial Law, Faculty of Law, Universitas Indonesia, E-mail: anastasyazefanya@gmail.com

Abstract. *This study aims to analyze the impact of the Financial Services Authority (OJK) Regulations No. 13/POJK.02/2018, No. 12/POJK.03/2021, and No. 10/POJK.05/2022 on banking participation in technology-enabled lending, in conjunction with the enactment of Law No. 27/2022 on Personal Data Protection and Law No. 4/2023 on the Development and Strengthening of the Financial Sector. The research employs a normative-juridical approach to examine the evolution and implementation of regulatory sandboxes, digital Know – Your – Customer (e-KYC) procedures, and AI-based credit scoring mechanisms. These elements are assessed in terms of their legal foundations and practical implications for credit accessibility, operational efficiency, and financial inclusion. The findings reveal that while these regulatory advancements have significantly improved access to credit and enhanced the efficiency of digital financial services, several challenges remain. These include a rise in non-performing loans, vulnerabilities in data privacy and cybersecurity, opaque interest rate structures, and compliance gaps in anti-money laundering and counter-terrorism financing (AML/CTF) frameworks. Addressing these issues requires the development of a risk-based, technology - neutral regulatory framework, increased transparency in algorithmic decision-making, and stronger cross-sector collaboration. Such measures are essential to fostering a robust, secure, and inclusive digital lending ecosystem in Indonesia that balances innovation with consumer protection and systemic stability.*

Keywords: *Banking; Digital; Financial; Lending; Technology.*

1. INTRODUCTION

The digitalization of financial services has fundamentally reshaped traditional banking models, positioning digital lending as a transformative innovation that improves credit accessibility, operational efficiency, and financial inclusion (Claessens et al., 2018; Pakpahan, Zulkifli, & Sunarto, 2022). In Indonesia, commercial banks have responded by establishing digital subsidiaries and partnering with fintech firms to engage in the evolving digital credit ecosystem (Arner et al., 2015).

The rapid growth of digital lending and fintech in Indonesia presents substantial opportunities to enhance financial inclusion and broaden credit access. However, this expansion raises significant regulatory and ethical concerns, including the absence of a comprehensive legal framework, insufficient consumer protection, and increasing risks to data privacy (Admiral & Pauck, 2023). These gaps have also facilitated the proliferation of illegal lending practices, exposing consumers to exploitative terms and heightened financial risks (Kharisma, 2020).

Scholars and industry practitioners advocate for a dedicated Fintech Law to enhance legal certainty, strengthen consumer protection, reduce systemic risks, and support sustainable growth of Indonesia's digital financial ecosystem (Kharisma, 2020; Muryanto et al., 2021). A clear and enforceable regulatory framework is essential to foster trust, security, and efficiency in the fintech landscape.

Since 2020, outstanding fintech lending in Indonesia has expanded markedly—from IDR 11.94 trillion to IDR 77.02 trillion as of March 2024. During the same period, the number of active borrowers rose from 25 million to over 60 million, predominantly comprising micro, small, and medium-sized enterprises (MSMEs) and financially underserved populations (OJK, n.d.). This rapid expansion has been driven by technological advancements, particularly the adoption of artificial intelligence (AI) for credit scoring, integration with e-commerce platforms, and the widespread use of Buy Now, Pay Later (BNPL) schemes. These innovations reflect a structural transformation in credit distribution and highlight the increasing prominence of technology-enabled financial intermediation.

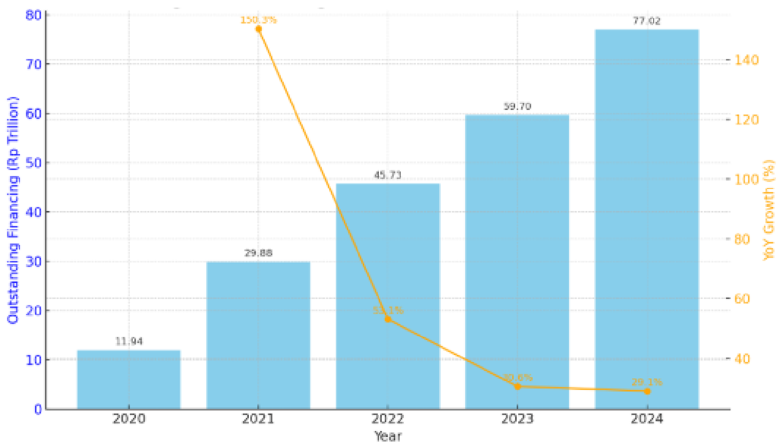

Figure 1. Outstanding Fintech Lending (Rp Trillion)
and Year-over-Year (YoY) Growth (%) in Indonesia, 2020–2024
Source: Processed data from Fintech Lending Statistics, OJK.
Available at: *https://ojk.go.id/id/kanal/iknb/data-dan-statistik/fintech/*

The chart illustrates the sustained growth of outstanding financing in Indonesia's fintech lending sector from 2020 to 2024, driven by rising transaction volumes, increasing user adoption, and broader geographic reach. As a result, the industry appears to be transitioning into a maturity phase—shifting focus from rapid expansion toward strengthening regulatory frameworks, enhancing consumer protection, and integrating digital technologies within traditional financial institutions.

To remain adaptive in this evolving ecosystem, both banks and regulators must recalibrate their strategies to support sustainable growth. This shift is exemplified by the emergence of fully digital banks such as Jenius by Bank BTPN (launched in 2016), Bank Jago (transformed in 2021), and Bank Raya (refocused in 2020), which reflect the sector's pivot toward digital-first operations and technology-driven credit models.

This transformation is supported by an adaptive regulatory environment, including POJK No. 12/POJK.03/2021 on Commercial Banks, POJK No. 10/POJK.05/2022 on Peer-to-Peer Lending, and Law No. 4 of 2023 (Financial Sector Omnibus Law), which collectively promote innovation while safeguarding financial system resilience (Philippon, 2019).

Nonetheless, the rapid rise of digital lending entails significant legal and operational risks. Algorithmic credit approval may heighten default exposure, regulatory asymmetries between banks and non-bank fintech lenders threaten competitive neutrality, and digital banks face persistent cybersecurity challenges, compliance demands, and heavy investments in digital infrastructure.

Legal concerns also include inadequate consumer protection, opaque loan terms, and potential misuse of personal data within digital lending agreements (Tarigan & Paulus, 2019; Sitorus, 2023; Putri, 2019). To mitigate these risks, Law No. 27 of 2022 on Personal Data Protection imposes strict requirements on data processing and user consent. Additionally, POJK No. 23/POJK.01/2019 reinforces anti-money laundering and counter-terrorism financing compliance through digital Know Your Customer (e-KYC) protocols (Zetzsche et al., 2017).

This study examines how Indonesia's regulatory framework facilitates banking sector participation in digital lending and critically analyzes legal challenges that may impede sustainable development. It addresses two central questions: (1) How do current regulations accelerate digital lending adoption within banks? and (2) What legal barriers must be overcome to ensure a fair, inclusive, and resilient digital lending ecosystem?

2. RESEARCH METHODS

This study employed a normative juridical approach, focusing on the analysis of statutory regulations, legal doctrines, and institutional frameworks that governed digital lending in Indonesia's banking sector. The central legal instruments reviewed included OJK Regulation No. 77/POJK.01/2016, POJK No. 12/POJK.03/2021, Law No. 4 of 2023 on the Financial Sector (PPSK), and Law No. 27 of 2022 on Personal Data Protection (PDP).

The methodology involved doctrinal legal analysis to interpret the normative content of these regulations, particularly concerning consumer protection, data privacy, credit risk governance, and compliance with anti-money laundering and counter-terrorism financing (AML/CTF) obligations. The study also conducts a regulatory gap assessment by comparing banking obligations with those imposed on fintech operators, revealing asymmetries that may hinder fair competition.

3. RESULTS AND DISCUSSION

In the following section, we synthesize key insights from our normative-juridical analysis and discuss their implications for Indonesia's digital lending ecosystem. We first examine the pioneering role of the regulatory sandbox in facilitating controlled experimentation with novel fintech innovations.

3.1. Regulatory Sandbox in Indonesia's Fintech Regulation: Testing Digital Financial Innovation

Regulatory sandboxes have emerged as critical instruments for governing fintech innovation in various jurisdictions. These controlled environments enable fintech firms to pilot new products or services under regulatory supervision prior to full licensing, while simultaneously allowing regulators to evaluate associated risks and benefits (Hesekova Bojmirova, 2022; Arner et al., 2015, 2017). Several studies suggest that sandboxes boost investment in fintech startups by reducing regulatory uncertainty: by offering a structured yet flexible framework, they enhance investor confidence in innovative digital financial ventures (Goo & Heo, 2020).

Nevertheless, concerns have been raised regarding potential misuse of sandbox mechanisms. Critics argue that such frameworks may inadvertently facilitate "risk-washing"—the dilution of oversight standards—thereby generating adverse social classification outcomes that disproportionately affect vulnerable groups (Brown & Piroska, 2021). These critiques underscore the need for rigorous evaluation protocols to ensure consumer protection is not compromised in the pursuit of rapid innovation.

Implementation of sandbox initiatives varies significantly across jurisdictions. The United Kingdom's Financial Conduct Authority (FCA) pioneered a model that has influenced regulatory strategies globally, including the European Union's Digital Finance Package (Miglionico, 2022). Such diversity in sandbox frameworks presents challenges to international harmonization, despite a shared objective of fostering effective compliance and transparency in fintech innovation processes.

In light of these developments, Indonesia has adopted the regulatory sandbox framework through its Financial Services Authority (Otoritas Jasa Keuangan, OJK). This initiative enables domestic fintech entities to experiment with novel financial solutions within a secure environment before obtaining full regulatory approval. Simultaneously, it empowers regulators to monitor innovation trajectories, identify systemic risks, and formulate adaptive regulations that align with technological advancements. Thus, the regulatory sandbox not only accelerates innovation but also underscores the importance of balancing experimentation with robust consumer protections in Indonesia's digital lending landscape.

a. Introduction to the Regulatory Sandbox in Indonesia's Fintech Regulation

The Financial Services Authority (OJK) formally introduced its regulatory sandbox through OJK Regulation No. 13/POJK.02/2018 on Digital Financial Innovation. Under this framework, fintech companies seeking to operate within Indonesia's financial services sector must complete sandbox testing to demonstrate adherence to prudential standards, data-protection requirements, and consumer-protection principles (OJK, 2018). By mandating a structured pilot phase, the regulation provides a clear legal basis for experimentation in a controlled environment designated by the OJK, thereby mitigating risks associated with novel financial products.

During the sandbox period, participants are assessed against rigorous criteria—including business-model viability, risk-exposure metrics, and regulatory-compliance benchmarks. The initial testing phase lasts up to one year, with the option of a six-month extension if further refinement is required. This phased approach enables fintech firms to address operational deficiencies before full market entry, while granting regulators the opportunity to evaluate potential benefits and risks before issuing permanent licences (Zetzsche et al., 2017).

b. Testing within a Controlled Environment

The regulatory sandbox grants fintech companies a defined period to test their financial services in a controlled environment before full-scale market deployment. Pursuant to OJK Regulation No. 13/POJK.02/2018, the initial testing phase is limited to one year and may be extended by six months if further evaluation is warranted. This framework enables regulators to oversee innovation while safeguarding the integrity of Indonesia's financial system.

During the sandbox period, the Financial Services Authority (OJK) conducts supervisory assessments across four key dimensions: the fintech's business-model viability and technological innovation; potential systemic risks to the broader financial sector; contributions to consumer welfare and financial inclusion; and compliance with applicable regulatory frameworks. These comprehensive evaluations allow regulators to balance the opportunities presented by emerging financial technologies against their attendant risks (Philippon, 2019).

A distinctive feature of the sandbox is its operational containment measures. Participating firms face restrictions on scale, customer base, and transaction volume, ensuring that any failures or vulnerabilities remain contained within a low-risk setting. Regulators also perform periodic reviews to identify concerns such as financial instability, data misuse, consumer exploitation, and technological weaknesses. In doing so, the sandbox mechanism serves dual functions: it protects consumers from unverified innovations and provides fintech companies with clear legal guidance and regulatory feedback prior to permanent market entry.

c. Categories of Fintech Required to Enter the Regulatory Sandbox

In Indonesia, regulatory requirements mandate that fintech companies across various categories enter a controlled sandbox environment before obtaining an operational license (OJK Regulation No. 13/POJK.02/2018). Bank Indonesia further classifies fintech activities into five core segments, as defined in Article 3(1) of Regulation No. 19/12/PBI/2017: payment systems, market-support services, investment and risk management, lending and financing, and other financial services (Hakim & Hapsari, 2022).

The payment systems segment encompasses the entire transaction lifecycle—authorization, clearing, final settlement, and real-time transfers—facilitated by blockchain, e-wallets, and mobile-payment platforms. These innovations streamline processes, reduce transaction costs, and extend secure services to underserved regions, thereby enhancing financial inclusion.

The market-support services segment offers rapid, cost-effective financial information via comparison platforms for credit cards, insurance, and mutual funds. By providing objective, feature-based analyses, these platforms boost transparency and strengthen consumer protection.

Within the investment and risk management segment, digital platforms—such as robo-advisors and tech-driven mutual funds—deliver automated, transparent asset-management and insurance solutions. This democratization of financial planning shifts the model from exclusive advisory services to inclusive, user-driven offerings (Barton & MacDonald, 2018).

The lending and financing segment—including peer-to-peer (P2P) lending and crowdfunding—provides alternative capital sources for individuals and SMEs. Integrated digital credit scoring and electronic KYC (e-KYC) protocols enable fast, transparent, and affordable financing, effectively addressing credit-access gaps (Tandelilin, 2017).

Finally, the other financial services category comprises budgeting apps, automated expense trackers, gamified financial-education tools, and personal tax planners. These solutions significantly enhance financial literacy and empower users to manage their finances more effectively.

Together, these five segments signify a structural transformation of Indonesia's financial system by accelerating transactions, lowering costs, and fostering consumer-centric innovation. To ensure fintech's sustainable and secure development, adaptive and effective regulation—particularly by the OJK—is crucial. Regulatory frameworks must balance the promotion of innovation with the protection of consumer interests to support fintech's long-term contribution to Indonesia's economy.

d. Evaluation Outcomes of the Regulatory Sandbox

Upon completion of the sandbox phase, the Financial Services Authority (OJK) applies a structured evaluation framework to determine the regulatory status of participating fintech firms (OJK, 2018). This framework leads to one of three possible determinations: "Recommended," "Improvement Required," or "Not Recommended." Each outcome serves as a critical regulatory inflection point with distinct implications for the firm's continued operation in Indonesia's financial ecosystem.

First, the "Recommended" designation is granted to fintech entities that have successfully met all established criteria during the sandbox trial. These firms demonstrate full compliance with legal, technical, and operational standards, and as a result, may proceed to formal registration and acquire an operational license. This status confirms their readiness to operate within Indonesia's financial regulatory landscape.

Second, the "Improvement Required" outcome applies to firms that show potential but require specific revisions to their business models, technological architecture, or risk management protocols. These firms are given constructive feedback and a defined period within which to address deficiencies. This category reflects a regulatory strategy that supports innovation while maintaining necessary safeguards.

Third, the "Not Recommended" status is reserved for firms that pose significant regulatory or operational risks. These entities either fail to meet core compliance standards or present unacceptable levels of systemic risk. Firms receiving this outcome are typically required to terminate their participation or comprehensively redesign their operations. This decision functions as a protective barrier, ensuring that high-risk or unviable business models do not jeopardize the stability of Indonesia's financial sector.

These outcomes illustrate the dual role of the regulatory sandbox: as a platform for enabling innovation and as a mechanism for enforcing accountability. The OJK's phased assessment process, with clearly defined exit criteria, enables the institution to simultaneously promote responsible fintech growth and uphold systemic integrity. The design of this evaluation model demonstrates a harmonized approach between fostering technological advancement and maintaining a robust regulatory framework.

Table 1. Regulatory Sandbox in Indonesia's Fintech Regulation

Aspect	Description	Supporting Regulation
Regulatory Sandbox Concept	A controlled environment for fintech to test products and services before full regulatory approval.	POJK No. 13/POJK.02/2018
Testing Period	Testing is limited to one year, with a six-month extension if necessary.	POJK No. 13/POJK.02/2018
Monitoring Criteria	Business model, risk exposure, consumer benefits, and compliance with regulations are evaluated during the testing phase.	POJK No. 13/POJK.02/2018
Fintech Categories for Sandbox	Includes payment systems, market-support services, investment and risk management, lending and financing, and other financial services.	POJK No. 13/POJK.02/2018, BI Regulation No. 19/12/PBI/2017
Evaluation Outcomes	Three outcomes: Recommended, Improvement Required, Not Recommended, based on compliance and risk assessment.	POJK No. 13/POJK.02/2018
Objective	To balance fintech innovation with consumer protection, ensuring safe, inclusive, and transparent financial services.	POJK No. 13/POJK.02/2018

3.2. Banking Regulations in Digital Lending

The digital transformation of the financial sector has compelled banks to adopt new business models, particularly in digital or technology-based lending. This shift is underpinned by a regulatory framework that encourages financial innovation while safeguarding systemic stability and consumer protection. In Indonesia, key regulatory instruments supporting digital lending include OJK Regulation No. 10/POJK.05/2022 on Information Technology-Based Joint Funding Services (LPBBTI), OJK Regulation No.

12/POJK.03/2021 on Commercial Banks, Law No. 4 of 2023 on the Development and Strengthening of the Financial Sector (PPSK), and Law No. 27 of 2022 on Personal Data Protection (PDP Law).

An early milestone in Indonesia's financial digitalization was Bank Indonesia Regulation No. 18/40/PBI/2016 on Payment Transaction Processing, which laid the foundation for digital payment systems. This was followed by OJK Regulation No. 77/POJK.01/2016 on Peer-to-Peer Lending Services, which—although initially designed for non-bank fintech firms—introduced the digital lending concept into the broader financial ecosystem.

Momentum accelerated with the launch of the Banking Digitalization Roadmap 2021–2025 by the Financial Services Authority (OJK), which outlines a strategic agenda for infrastructure, regulation, and ecosystem development to promote comprehensive digital transformation across the banking sector.

These regulations enable banks to modernize credit delivery through several models: establishing digital business units, partnering with registered fintech platforms, or building proprietary digital lending systems. They also facilitate the integration of advanced technologies such as data analytics and artificial intelligence (AI) into credit assessment, resulting in faster and more accurate lending decisions.

Nonetheless, rapid growth in digital lending presents ongoing legal and operational challenges—particularly in consumer protection, credit risk governance, and compliance with anti-money laundering (AML) and counter-terrorism financing (CTF) regulations (Arner et al., 2015). Regulatory oversight by OJK and related institutions remains essential to maintaining a balance between innovation and financial system integrity.

Among the most pivotal instruments is OJK Regulation No. 10/POJK.05/2022, which governs fintech-based peer-to-peer (P2P) lending. Under this regulation, banks may adopt various approaches to participate in digital lending: establishing dedicated digital subsidiaries, collaborating with licensed fintech providers, or deploying internal digital platforms—each offering operational flexibility and reduced infrastructure costs (OJK, 2022).

OJK Regulation No. 12/POJK.03/2021 further institutionalizes the concept of fully digital banks, in alignment with global trends. It permits end-to-end online credit distribution, expedited loan approvals, and AI-powered credit scoring systems, all of which enhance financial access and inclusion, especially for unbanked populations (OJK, 2021).

Law No. 4 of 2023 (PPSK) strengthens the legal foundation for digital banking and fintech integration, aiming to foster a connected and efficient national financial ecosystem. Its provisions offer legal certainty, encouraging innovation without regulatory ambiguity that might otherwise impede market development.

Despite these advances, legal risks persist—particularly concerning predatory lending, non-transparent terms, and excessive interest rates in online credit offerings.

Inadequate regulatory oversight may expose consumers to harm, prompting OJK and related agencies to issue continuous policy updates to enhance protections in the digital lending space.

Moreover, effective credit risk management and compliance with AML/CTF obligations remain paramount. Banks must implement robust systems, including digital KYC, real-time monitoring, and risk analytics, to prevent loan defaults and misuse of financial services. While technologies such as AI and big data can enhance these capabilities, sustained regulatory compliance is vital to preserve industry integrity.

The following table summarizes the regulatory instruments that collectively support the digital lending ecosystem in Indonesia and their respective contributions:

Table 2. Regulatory Framework Supporting Digital Lending in Indonesia

Regulation	Scope and Contribution to Digital Lending
POJK No. 10/POJK.05/2022	Governs fintech (P2P lending); enables bank-fintech collaboration and digital lending models.
POJK No. 12/POJK.03/2021	Introduces the concept of fully digital banks; enables end-to-end online lending and AI-based credit scoring.
Law No. 4 of 2023 (PPSK Law)	Strengthens legal foundation for digital banking innovation and fintech integration.
Law No. 27 of 2022 (PDP Law)	Ensures personal data protection in digital lending transactions, enhancing consumer protection.
POJK No. 77/POJK.01/2016	Early regulation for P2P lending; introduced digital lending practices into the financial system.
BI Regulation No. 18/40/PBI/2016	Establishes digital payment infrastructure, foundational for online financial services.
Banking Digitalization Roadmap 2021–2025	Strategic guide for digital transformation in banking, including the development of the lending ecosystem.

3.3. Factors Enabling the Acceleration of Banking Participation in Online Lending

The rapid proliferation of online lending platforms in Indonesia has substantially advanced financial inclusion by extending credit access to previously unbanked and underbanked populations via mobile devices and internet connectivity. However, this expansion concurrently raises critical concerns regarding personal data protection and regulatory compliance. Many platforms collect extensive user information to enhance credit-scoring accuracy, yet without rigorous cybersecurity safeguards, such practices expose consumers to potential data breaches and misuse (Wirani et al., 2022; Admiral & Pauck, 2023).

Simultaneously, commercial banks' integration into the digital lending ecosystem has been driven by breakthroughs in big-data analytics and artificial intelligence. These technologies enable more precise assessment of borrower risk profiles and bolster banks' competitiveness in a rapidly digitizing market (Abdurrahman et al., 2024). The enactment of OJK Regulation No. 12/POJK.03/2021 on Commercial Banks, Law No. 27 of 2022 concerning Personal Data Protection, and OJK Regulation No. 23/POJK.01/2019 on AML-CTF obligations has provided the legal certainty necessary for banks to pursue innovation responsibly while safeguarding consumer interests (OJK, 2021; Republik Indonesia, 2022).

At the same time, the rapid rise of peer-to-peer fintech lenders underscores the need for a balanced regulatory stance. Excessively stringent requirements risk stifling technological innovation, whereas overly lenient oversight can sow the seeds of systemic vulnerabilities. Consequently, regulators must design adaptive, risk-based policy frameworks that incorporate continuous risk assessment and meaningful stakeholder engagement to reconcile the twin goals of industry growth and robust consumer protection.

User adoption of online lending is shaped by both digital literacy and perceived platform trustworthiness. Intuitive interfaces and streamlined application processes enhance borrower confidence, yet persistent concerns about data security and privacy continue to limit broader uptake. Addressing these trust deficits is therefore essential for expanding the market beyond early adopters (Wirani et al., 2022; Admiral & Pauck, 2023).

To overcome these challenges, banks must cultivate dynamic capabilities across technological, organizational, and environmental dimensions. Technologically, institutions should deploy state-of-the-art cybersecurity measures and sophisticated data-analytics tools to reinforce user trust. Organizationally, fostering cross-functional collaboration among IT, risk management, and compliance teams will enable nimble responses to evolving regulatory landscapes. Environmentally, ongoing monitoring of fintech innovations and the cultivation of strategic partnerships will ensure that digital lending solutions are deployed sustainably and aligned with shifting market and regulatory conditions (Abdurrahman et al., 2024).

Ultimately, digital lending presents significant benefits—including operational efficiency, expanded credit access, and enhanced transaction security—but realizing these advantages requires a coordinated approach. By embracing adaptive regulations, strengthening data governance, and investing in technological and organizational capacity, stakeholders can build a resilient, inclusive, and trustworthy digital lending ecosystem in Indonesia. The main enabling factors for these developments are elaborated as follows:

a. Mandated Digitalization and Operational Efficiency

One of the primary factors driving digital transformation in banking is the regulatory mandate for operational efficiency through digitalization. POJK No. 12/POJK.03/2021 introduces the concept of digital banks, permitting them to operate entirely online without relying on a widespread physical branch network. This shift allows banks to reduce infrastructure costs and reallocate resources to the development of fintech-based credit services.

Such digital transformation not only reduces operational expenses but also expands the reach of credit services. Banks can now offer loan products more efficiently, especially to underserved communities traditionally excluded from conventional banking. The rise of fully digital banking models in Indonesia facilitates faster, lower-cost loan disbursements, thereby broadening customer bases, enhancing financial inclusion, and offering loan products that meet the demands of the digital era (Philippon, 2019).

Additionally, digital onboarding enhances accessibility by enabling remote identity verification, removing the need for prospective borrowers to visit physical branches. This process supports financial inclusion, particularly for populations in remote or underbanked regions (Claessens et al., 2018).

b. Technology-Driven Credit Processes

Technological advancements have significantly streamlined the credit process in online lending. Regulations such as POJK No. 10/POJK.05/2022 and POJK No. 12/POJK.03/2021 permit the use of big data and artificial intelligence (AI) in credit analysis, thereby accelerating the digital lending process.

Instead of relying solely on traditional credit histories (e.g., BI Checking), banks now utilize alternative credit scoring methods based on customers' digital behavior. Data such as transaction history, spending patterns, and social media activity can be analyzed to assess creditworthiness. This approach enables faster loan approval, reduces manual procedures, and offers more accurate risk assessments.

Technology-driven assessments also allow banks to serve individuals without formal credit histories, including the unbanked and underserved populations previously excluded from formal financial institutions.

c. Enhanced Consumer Protection Regulations

As digital lending becomes increasingly widespread, consumer protection has emerged as a top regulatory priority. Law No. 27 of 2022 on Personal Data Protection (PDP Law) and related OJK regulations ensure that online lending platforms adhere to stringent consumer protection standards.

Under these regulations, banks are required to safeguard personal data and provide transparent loan information, including details on interest rates, fees, and repayment terms. This legal clarity fosters consumer trust and empowers banks to expand into online lending with greater confidence, without the uncertainty of regulatory risks (Republik Indonesia, 2022).

Key distinctions between bank-provided digital loans and illegal fintech offerings include robust personal data protection, clear cost disclosures, and reliable consumer complaint mechanisms. Banks are mandated to implement high-level encryption measures to prevent data misuse, in line with the PDP Law.

Moreover, the Financial Services Authority (OJK) mandates transparency in interest rates and fees, ensuring that consumers are fully informed before entering loan agreements. Banks also benefit from a well-regulated dispute resolution system under OJK supervision, which offers greater legal certainty and strengthens consumer protection. Collectively, these measures enhance the credibility and public trust in bank-driven digital lending (Arner, Barberis, & Buckley, 2015).

d. Integration with Digital Payment Systems

Indonesian banking regulations have also facilitated the integration of digital payment systems, a crucial factor for advancing online lending. The widespread use of digital wallets and e-commerce platforms enables banks to seamlessly embed lending services within existing digital ecosystems.

This integration allows banks to provide direct loans to e-commerce users or digital banking customers without lengthy procedures. As a result, loan disbursement becomes faster and more convenient, tailored to the needs of the digital consumer. It also enables banks to collaborate with fintech firms, e-commerce platforms, and other tech companies, thereby expanding service coverage and optimizing loan distribution. By leveraging these digital ecosystems, banks can deliver credit efficiently, bypassing the delays typical of traditional banking procedures (OJK, 2021).

e. Anti-Money Laundering and Counter-Terrorism Financing Measures

In parallel with promoting innovation, regulatory frameworks addressing anti-money laundering and counter-terrorism financing (AML-CTF) are instrumental in supporting bank participation in online lending. The Financial Services Authority Regulation (POJK) No. 23/POJK.01/2019 mandates the implementation of digital Know Your Customer (KYC) procedures as a foundational component of secure digital financial services.

Digital KYC facilitates remote identity verification, minimizing the need for physical presence while maintaining the integrity of customer due diligence. This regulatory requirement enhances transaction security and ensures that digital loans are disbursed only to verifiable individuals, thereby reducing the risk of fraud and identity misuse (Republik Indonesia, 2023).

Such measures are critical for safeguarding the financial system against abuse. By integrating AML-CTF compliance into digital lending frameworks, banks can help prevent the exploitation of online platforms for illicit activities such as money laundering and the financing of terrorism. The robustness of this regulatory environment provides a secure foundation for expanding digital credit operations.

The rapid growth of online lending in Indonesia is thus underpinned by a combination of regulatory safeguards and technological enablers. Together, these factors empower banks to innovate responsibly, operate more efficiently, and extend financial services to broader market segments through secure and compliant digital platforms.

Table 3. Key Enabling Factors and Supporting Regulations for Digital Lending in Indonesia

Key Enabling Factor	Description	Supporting Regulation

1. Mandated Digitalization & Operational Efficiency	Push for digital bank models to reduce costs and expand access through digital onboarding.	POJK No. 12/POJK.03/2021
2. Technology-Driven Credit Processes	Use of AI, big data, and alternative credit scoring to simplify credit assessment.	POJK No.10/POJK.05/2022, POJK No. 12/POJK.03/2021
3. Enhanced Consumer Protection Regulations	Personal data protection, transparency in costs, and regulated dispute resolution.	Law No. 27 of 2022 (PDP Law), OJK regulations
4. Integration with Digital Payment Systems	Seamless loan distribution via digital wallets, e-commerce, and fintech partnerships.	Supported by BI & OJK digital ecosystem frameworks
5. AML-CTF Measures & Digital KYC	Secure online identity verification to prevent misuse of digital lending.	POJK No. 23/POJK.01

These regulatory frameworks, technological advancements, and institutional reforms have created a conducive environment for banks to actively engage in the digital lending industry. Legal certainty, consumer protection, and system integration have collectively enabled banks to innovate confidently and contribute to the growth of a secure and inclusive online lending ecosystem in Indonesia.

3.4. Legal Challenges in Digital Lending Banking

Recent academic research highlights a profound structural transformation in the digital lending and banking ecosystem. Cuadros-Solas et al. (2024) identify fintech lending as a major disruptor that diminishes traditional banks' market power and financial stability. Such disruption underscores the necessity for robust regulatory mechanisms and a comprehensive legal framework to mitigate systemic risks and uphold institutional integrity.

However, LendTech is not solely disruptive—it also complements conventional banking during economic stress. Waliszewski et.al. (2024) demonstrate that digital lending platforms, including buy-now-pay-later (BNPL) services, enhance financial inclusion by reaching underserved consumer segments. This dual role positions LendTech as a resilient, adaptive component within the broader financial architecture.

The advent of central bank digital currencies (CBDCs) further introduces both opportunities and significant challenges. Vaidya & Niroula (2024) raise concerns regarding financial stability, operational feasibility, and cybersecurity vulnerabilities, advocating cautious, phased implementation strategies. Simultaneously, e-banking continues to expand access in remote and marginalized regions; Afraz & R.G (2024) note its trust-building potential yet warn that digital-literacy gaps and data-security risks may undermine inclusion if left unaddressed. Collectively, these developments highlight the need for a regulatory balance that fosters innovation while safeguarding financial stability, consumer protection, equity, and systemic resilience.

In Indonesia, regulatory support has facilitated digital-lending growth, but key legal challenges persist. First, interest-rate and fee structures must comply with OJK guidelines to prevent exploitative practices—banks must balance profitability with borrower protection to avoid legal exposure. Second, Law No. 27 of 2022 on Personal Data Protection mandates strict confidentiality and lawful processing of personal data; breaches risk severe reputational and legal consequences, while cybersecurity threats demand robust digital infrastructures to preserve trust. Third, credit-risk management remains critical: although digital platforms expedite approvals, they can heighten default risks, requiring advanced assessment tools and strict adherence to debt-collection laws and borrower rights. Finally, compliance with anti-money laundering and counter-terrorism financing (AML/CTF) requirements under OJK Regulation No. 23/POJK.01/2019 is essential—digital KYC protocols must be rigorously applied to verify identities and prevent illicit use, lest lapses trigger regulatory sanctions.

In conclusion, while Indonesia's regulatory framework supports digital-lending innovation, full legal compliance across interest regulation, data protection, credit-risk governance, and AML/CTF enforcement is vital to ensure consumer protection and the sector's sustainable growth.

Table 4. Legal Challenges in Digital Lending within Indonesia's Banking Sector

Legal Challenge	Key Issues	Relevant Regulation
Interest Rates and Fees	Must be reasonable, non-exploitative; risk of legal violation if excessive	OJK regulations on interest limits
Personal Data Protection and Cybersecurity	Protection of sensitive borrower data; threat of cyberattacks; data use must be lawful	Law No. 27/2022 (UU PDP)
Non-Performing Loans (NPL)	Quick approvals increase default risk; need strong risk assessment and lawful debt collection	General legal procedures on debt resolution
AML and CTF Compliance	Digital KYC must be accurate; prevent misuse for money laundering/terrorism financing	POJK No. 23/POJK.01/2019

4. CONCLUSION

The rapid expansion of digital lending in Indonesia underscores the dynamic interaction between regulatory reform and technological innovation. Regulations such as POJK No. 12/POJK.03/2021, POJK No. 10/POJK.05/2022, and Law No. 4/2023 have empowered banks to digitize credit services, integrate with the broader fintech ecosystem, and promote financial inclusion. Despite this progress, critical legal challenges persist: elevated non-performing loan risks, insufficient price transparency, vulnerabilities in personal data protection, and gaps in anti-money laundering and counter-terrorist financing (AML/CTF) compliance. To address these shortcomings and ensure sustainable ecosystem growth, regulators should adopt adaptive, risk-based frameworks that anticipate emerging technologies such as AI-driven credit scoring and digital Know-Your-Customer (KYC) processes. Provisions in Law No. 27 of 2022 and POJK No. 23/POJK.01/2019 highlight the necessity of robust data governance and real-time monitoring systems. Clear standards on algorithmic transparency, fair-lending practices, and cybersecurity safeguards are indispensable for maintaining legal certainty and consumer trust. Ultimately, a collaborative approach among banks, fintech providers, and regulators will be vital to building a compliant, resilient, and inclusive digital lending landscape.

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