

Problems of Peer-to-Peer Lending (P2PL) in Indonesia from an Islamic Law Perspective

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Abstract: In today's digital era, online platforms have revolutionised access to essential services, including financial transactions such as borrowing money. This research investigates the proliferation of online lending services, which provide easy access to funds with minimal prerequisites, thus facilitating widespread participation. However, the exponential growth of online loans also amplifies associated risks for all stakeholders involved. This study employs an empirical-juridical approach to examine the implementation of online lending and borrowing services, evaluating both their benefits and drawbacks. The research utilises data from Financial Services Authority Regulation Number 77/POJK.01/2016, focusing on its impact on consumer protection within the online lending sector. By analysing regulatory frameworks and empirical data, this study aims to enhance public awareness regarding the legal provisions and risks associated with online financial transactions. The findings underscore the necessity of informed decision-making among borrowers and lenders alike, promoting a balanced approach to financial inclusivity and risk management in the digital economy. Ultimately, this research contributes valuable insights into the evolving landscape of online lending practices and their implications for regulatory policy and consumer protection in Indonesia.

Keywords: Peer-to-Peer Lending, Islamic Law

Abstrak: Di era digital saat ini, platform online telah mengubah cara akses terhadap layanan penting, termasuk transaksi keuangan seperti pinjaman uang. Penelitian ini menginvestigasi peningkatan layanan pinjaman online, yang menyediakan akses mudah terhadap dana dengan persyaratan minimal, sehingga memfasilitasi partisipasi yang luas. Namun, pertumbuhan eksponensial pinjaman online juga meningkatkan risiko yang terkait bagi semua pihak yang terlibat. Penelitian ini menggunakan pendekatan yuridis empiris untuk memeriksa implementasi layanan pinjaman dan peminjaman online, mengevaluasi baik manfaat maupun dampak negatifnya. Penelitian ini menggunakan data dari Peraturan Otoritas Jasa Keuangan Nomor 77/POJK.01/2016, dengan fokus pada dampaknya terhadap perlindungan konsumen dalam sektor pinjaman online. Dengan menganalisis kerangka regulasi dan data empiris, penelitian ini bertujuan untuk meningkatkan kesadaran masyarakat mengenai ketentuan hukum dan risiko yang terkait dengan transaksi keuangan online. Temuan penelitian menekankan pentingnya pengambilan keputusan yang berinformasi bagi peminjam dan pemberi pinjaman, mendorong pendekatan seimbang terhadap inklusivitas keuangan dan manajemen risiko dalam ekonomi digital. Secara keseluruhan, penelitian ini memberikan wawasan berharga tentang perkembangan praktik pinjaman online dan implikasinya terhadap kebijakan regulasi dan perlindungan konsumen di Indonesia.

Keywords: Peer to Peer Lending, Hukum Islam

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Introduction

Human involvement in business activities serves both physical needs and as a means of communication. These activities must align with the noble values established by religion. Despite strong economic progress, neglecting these values can lead to devastating consequences. Islam, a comprehensive and robust religion, outlines principles for lending and borrowing, known as "ariyah."¹ Ariyah involves lending an item for use and returning it intact. The Quran, specifically in Surah Al-Maidah (5:2), also addresses lending and borrowing.² Historically, this practice evolved from individual exchanges of goods to group or institutional money lending, and now, to online lending with simplified conditions.

Despite technological advancements, many people lack education about these developments, leading to various risks, such as data breaches and misuse by companies. The Financial Services Authority (OJK) issued Regulation No. 77/POJK to address these issues.01/2016, governing technology-based lending and borrowing services (LPMUBTI).³ This regulation ensures OJK's supervision and protection of fintech services. Additionally, the OJK established the

Investment Alert Task Force to oversee fintech companies further. The digital age has introduced new crimes, particularly affecting consumers who use these technologies.

The COVID-19 pandemic exacerbated economic difficulties, making illegal online loans appealing to those in financial distress. The ease of obtaining such loans creates a false sense of economic improvement despite high interest rates and short repayment terms causing harm. Additionally, the requirement for consumers to provide personal data leads to data exposure. The public's lack of education makes them vulnerable to these pitfalls, increasing the popularity of online loans in Indonesia.

Table 1. Presence of online lending platforms in Indonesia.

Platform Name	Description	Features	Coverage
Kredit Pintar	Offering personal loans	Quick approval, varying loan amounts	Nationwide
Akulaku	E-commerce financing platform	Instalment plans, cash loans	Nationwide
DanaRupiah	Short-term loans	Fast disbursement, mobile app integration	Nationwide
Kredivo	Paying later services	Interest-free instalment options	Nationwide
Tunaiku	Personal loans	Fixed monthly instalments, online application	Nationwide

Table 1 summarizes online lending platforms in Indonesia. Kredit Pintar offers personal loans with quick approval. Akulaku provides e-commerce financing with instalment plans. DanaRupiah focuses on short-term loans with fast disbursement. Kredivo features interest-free pay-later services, while Tunaiku offers personal loans with fixed instalments. All platforms operate nationwide.

Research by Nurul Fadliyah and Ahmad Musyahid indicates that internet-based loans

¹ Trenggi Naswatie Dan Ach Yasin, "Tinjauan Fiqh Muamalah Terhadap Akad 'Ariyah Dalam Pembagian Software," *Jurnal Ilmiah Ekonomi Islam* 8, No. 2 (8 September 2022): 2230, <https://doi.org/10.29040/jiei.v8i2.3886>; Johan Alamsyah, "Urgensi Konsep Al-'Ariyah, Al-Qardh, Dan Al-Hibah Di Indonesia," *Yurisprudencia: Jurnal Hukum Ekonomi* 4, No. 2 (2018): 170, <https://doi.org/10.24952/Yurisprudencia.V4i2.1505>.

² Julfan Saputra, Sri Sudiarti, Dan Asmaul Husna, "Konsep Al-'Ariyah, Al-Qardh Dan Al-Hibah," *Al-Sharf: Jurnal Ekonomi Islam* 2, No. 1 (10 Agustus 2021): 35, <https://doi.org/10.56114/Al-Sharf.V2i1.136>.

³ Ubaidillah Kamal Dan Ayup Suran Ningsih, "The Urgency Of Revising The Finance Services Authority Regulation Number 77/Pojk.01/2016 As An Umbrella Law In Practicing Peer To Peer Lending Based On Financial Technology In Indonesia," *Pandecta Research Law Journal* 16, No. 1 (6 Juni 2021): 190, <https://doi.org/10.15294/Pandecta.V16i1.30397>.

involve usury due to non-Sharia-compliant interest rates, although they are regulated by the financial services authority. Despite this, online loans are considered legal transactions between debtors and creditors based on agreements outlined in Article 1320 of the Civil Code. These agreements arise from consensualism or equality of will. Syuda et al. further explored this concept through the *wakalah* (agency) contract for risk coverage in Sharia online loans within a limited liability company in Aceh, finding similarities with the *ijarah* contract. In the context of Islamic finance, *wakalah* (agency) refers to a contract where one party (the principal) appoints another party (the agent) to act on their behalf in matters specified in the contract⁴

Table 2. Issues Arising from Community Engagement in Online Borrowing.

Issues	Description	Impact
High Interest Rates	Exorbitant interest charges on loans, often undisclosed	Financial burden on borrowers
Data Privacy Concerns	Inadequate protection of personal information shared during loan applications	Risk of identity theft and fraud
Predatory Lending Practices	Aggressive or deceptive practices to lure borrowers into unaffordable loans	Increased debt and financial distress
Lack of Financial Literacy	Limited understanding among borrowers about loan terms, risks, and consequences	Vulnerability to exploitation
Illegal Lending Platforms	Unregulated platforms offering loans outside legal frameworks	Legal and financial risks for borrowers

Table 2 provide insights into the landscape of online lending platforms in Indonesia and the associated issues faced by the community. Placing the tables after this revised introduction ensures they follow logically from the contextual information

⁴ Irma Shintia Kumaralo, Risdalina Risdalina, Dan Indra Kumala Sari M, "The Legal Force Of The Cooperation Agreement Letter In A Cooperation Agreement Is Reviewed According To Article 1320 Of The Civil Code," *Journal Of Social Research* 2, No. 3 (27 Februari 2023): 920, <https://doi.org/10.55324/Josr.V2i3.750>.

provided.

OJK Regulation No. 13/POJK.02/2018 concerning Digital Financial Innovation in the Financial Services Sector regulates online loans to protect consumers and the fintech industry.⁵ Prioritising consumer protection is essential to safeguard those using these services. This article aims to discuss an area of research not specifically addressed: how the government optimises the handling of illegal online loan issues and their proliferation in Central Java, based on previous studies.

Literature Review

The conceptual framework of this study integrates principles from both peer-to-peer lending (P2PL) and Sharia economic law to comprehensively analyse the dynamics and implications of P2PL platforms within the Indonesian financial landscape.

1. **Peer-to-Peer Lending (P2PL):** P2PL refers to online platforms facilitating direct lending between individual lenders and borrowers, bypassing traditional financial intermediaries. These platforms leverage digital technology to match lenders seeking returns with borrowers requiring capital, thereby democratising access to finance.⁶

⁵ Rindia Fanny Kusumaningtyas, Ristina Yudhanti, Dan Afifah Widyastuti, "The Urgency Of Organizing Insurtech In Improving Insurance Services Based On Pojk No. 13/Pojk.02/2018 Regarding Digital Financial Innovation In The Financial Services Sector," *Pandecta Research Law Journal* 18, No. 2 (25 Desember 2023): 232, <https://doi.org/10.15294/Pandecta.V18i2.47666>.

⁶ Ahmad Hidayah, "Membongkar Sisi Gelap Fintech Peer-To-Peer Lending (Pinjaman Online) Pada Mahasiswa Di Yogyakarta," *Journal Of Humanity Studies* 1, No. 1 (21 September 2022): 14, <https://doi.org/10.22202/Jhs.2022.V1i1.6189>; Muhammad Gema Fitriyadi, "Analisis Mitigasi Risiko Financial Technology Syariah Peer To Peer (P2p) Lending Dalam Penyaluran Pembiayaan Terhadap Umkm Di Indonesia (Studi Kasus Pt. Ammana Fintek Syariah)" (Sarjana, Universitas Brawijaya, 2019), 76, <http://repository.ub.ac.id/Id/Eprint/170516/>.

2. **Sharia Economic Law:** Sharia economic law provides the ethical and legal framework for financial transactions in Islamic finance. Key principles include the prohibition of interest (*riba*), which promotes equitable profit-sharing (*mudarabah*) and risk-sharing (*musharakah*) arrangements. These principles ensure transactions are ethical, socially responsible, and aligned with Islamic values.⁷
3. **Integration and Analysis:** The framework integrates these principles to assess how P2PL platforms operate under Sharia compliance standards. It examines the extent to which platforms adhere to *mudarabah* and *musharakah* principles, ensuring fairness, transparency, and risk-sharing among stakeholders. Moreover, it evaluates the challenges and opportunities faced by P2PL in aligning with Islamic financial ethics amidst rapid technological advancements and regulatory requirements.⁸
4. **Operational Dynamics:** Analysing the operational dynamics involves studying the structure of P2PL platforms, the mechanisms of fund allocation, borrower evaluation processes, and the distribution of returns. It explores how these operations uphold Sharia principles while fostering financial inclusion and economic growth.
5. **Ethical and Regulatory Considerations:** Ethical considerations ensure that P2PL activities do not contravene Sharia

principles, particularly regarding interest-free financing and equitable distribution of profits. Regulatory frameworks are crucial in enforcing compliance with Islamic financial standards, safeguarding consumer rights, and maintaining financial stability.

6. **Implications for Financial Inclusion:** The framework also examines the implications of P2PL in promoting financial inclusion among underserved communities, including micro, small, and medium-sized enterprises (MSMEs) and individuals lacking access to traditional banking services. It evaluates how Sharia-compliant P2PL can bridge gaps in financing while supporting sustainable economic development.

By employing this integrated conceptual framework, the study aims to provide a comprehensive understanding of the issues, challenges, and potentials of P2PL within Indonesia's financial ecosystem from both conventional and Islamic perspectives. It seeks to contribute to policy discourse and regulatory frameworks that foster ethical financial practices and sustainable economic growth.

Method

To provide a comprehensive analysis of online loans within the scope of this study, data was gathered and analysed using the empirical juridical approach. This method involves studying real-world conditions and interactions within the Indonesian financial environment to uncover pertinent facts and insights. Here's how the data on online loans was obtained and analysed:

1. **Data Collection:** The study sourced data from multiple reliable sources, including:
 - Reports and publications from the Financial Services Authority (OJK) of Indonesia.
 - Official statistics and data releases

⁷ Khairudin, 'The Practice of Buying and Selling Black Market Goods on The Perspective of Islamic Economic Law', *NUSANTARA: Journal Of Law Studies*, 1.1 SE-Articles (2023), pp. 77–85 <<https://juna.nusantarajournal.com/index.php/juna/article/view/40>>.

⁸ Zalna Tiara and Kuku Tejomurti, 'Efficiency of Implementation of Alternative Dispute Settlement for Fintech Lending Users', *Jurnal Scientia Indonesia*, 8.1 (2022), doi:10.15294/jsi.v8i1.35951.

from registered fintech companies.

- Research articles and studies on P2P lending and online financial services in Indonesia.
- Legal documents and regulations governing online lending practices, including Financial Services Authority Regulation Number 77/POJK.01/2016.

The data collection process focused on gathering information regarding:

- The number of registered online lending platforms.
- Types of loans offered (e.g., personal loans, business loans, Sharia-compliant loans).
- Loan volumes and amounts disbursed over specific periods.
- Non-performing loan (NPL) ratios and default rates.

2. Data Analysis:

- **Qualitative Analysis:** Qualitative data, including legal frameworks and consumer protection measures, were analysed to assess compliance with regulatory standards and ethical considerations in Islamic finance.

3. Methodological Rigor:

- The empirical juridical approach ensured that data collection was grounded in real-world observations and interactions within the Indonesian financial sector. This methodological rigour facilitated the discovery of factual information crucial for understanding societal attitudes towards online lending practices.
- By examining how community interactions influence compliance with legal provisions, the study aimed to uncover insights into the effectiveness of current regulatory frameworks and their impact on consumer protection and financial

stability.

4. Limitations and Considerations:

- The study acknowledged limitations such as potential biases in data reporting and the availability of comprehensive data from all online lending platforms.
- Efforts were made to mitigate these limitations by cross-referencing data from multiple sources and ensuring transparency in the analysis process.

In conclusion, the empirical-juridical approach adopted in this study facilitated a thorough examination of online loans in Indonesia, highlighting trends, regulatory challenges, and implications for financial inclusion and Sharia compliance. This approach aligns with the research objective of providing factual knowledge to inform policy and regulatory decisions in the digital financial services sector.

Results and Discussion

Technological Advances in Financial Services

The adaptation of financial technology, or FinTech, represents a significant advancement in the financial industry, incorporating modern technologies to enhance the ease and security of financial transactions (NDRC, n.d.).⁹ Online loans are a notable service offered by FinTech companies, particularly through Peer-to-Peer (P2P) Lending platforms that connect lenders directly with borrowers via the Internet. In 2018,¹⁰ FinTech companies

⁹ Hendrawan Agusta, "Perlindungan Data Pribadi Penerima Pinjaman Dalam Transaksi Pinjam Meminjam Uang Berbasis Teknologi Informasi (Peer To Peer Lending)," *Krtha Bhayangkara* 14, No. 2 (7 Desember 2020): 15, 7, <https://doi.org/10.31599/Krtha.V14i2.189>.

¹⁰ Fitriyadi, "Analisis Mitigasi Risiko Financial Technology Syariah Peer To Peer (P2p) Lending Dalam Penyaluran Pembiayaan Terhadap Umkm Di Indonesia (Studi Kasus Pt. Ammana Fintek Syariah)," 57.

disbursed approximately IDR 22 trillion in credit, a substantial increase compared to IDR 2.56 trillion in 2017. This growth is evidenced by transactions exceeding 9 million, serving over 3 million individuals across Indonesia. Despite this growth, the non-performing loan (NPL) ratio rose to 1.45% in 2018 from 0.99% in 2017.¹¹

The surge in loan disbursements over the past three years underscores the growing confidence of Indonesian society in FinTech providers. The primary beneficiaries of these online loans include workers, farmers, fishermen, artisans, and MSMEs. These borrowers often prefer online loans due to the less stringent administrative requirements compared to traditional financial services.

Indonesia presents a fertile ground for the expansion of online loan businesses, driven by significant segments of the population unable to access formal financial services, thus turning to easier and faster illegal alternatives within the FinTech sector. Despite existing regulations, some FinTech companies choose not to register with the Financial Services Authority (OJK), highlighting regulatory gaps that persist within the industry's development.

Definition and Scope of FinTech

The term FinTech, derived from "financial technology," encompasses innovations in financial services that leverage the latest technological advancements. The industry comprises companies utilising technology to streamline

financial systems and service delivery, commonly recognised as "Online Loans."

According to Article 1, paragraph 3 of Financial Services Authority Regulation No. 77/2016, "Financial Technology-Based Lending and Borrowing Services" is defined as financial services facilitating lending and borrowing agreements exclusively in Indonesian Rupiah through electronic systems or internet networks. These services are legally restricted to individuals meeting specific regulatory criteria.¹²

Challenges and Considerations

Despite the benefits, online loans face challenges in risk assessment and oversight, particularly with the proliferation of illegal FinTech operating outside OJK regulations. Furthermore, the emergence of online Sharia-compliant loans represents a fusion of financial and technological innovation aligned with Islamic principles. However, ensuring compliance with Sharia banking regulations poses unique distribution challenges in online lending and borrowing.

In conclusion, while online loans underpin significant financial inclusion strides in Indonesia, effective regulatory frameworks and technological innovations are essential to sustain growth while safeguarding consumer interests and financial stability.

Islamic Law Regarding Online Lending and Borrowing

¹¹ Sarswati Bhandari, "Impact Of Financial Distress On Profitability Of Nepalese Commercial Banks" (Thesis, Department Of Management, 2020), 65, <https://Elibrary.Tucl.Edu.Np/Handle/123456789/16510> ; Peterson K. Ozili, Asma Salman, Dan Qaisar Ali, "The Impact Of Foreign Direct Investment Inflows On Nonperforming Loans: The Case Of Uae," *Ssrn Scholarly Paper* (Rochester, Ny, 2020), 77, <https://Doi.Org/10.2139/Ssrn.3742785>.

¹² Ernama Santi, Budiharto Budiharto, Dan Hendro Saptono, "Pengawasan Otoritas Jasa Keuangan Terhadap Financial Technology (Peraturan Otoritas Jasa Keuangan Nomor 77/Pojk.01/2016)," *Diponegoro Law Journal* 6, No. 3 (30 Juli 2017): 12, <https://Doi.Org/10.14710/Dlj.2017.19683>; Etis Cahyaning Putri Dan Frida Atma Yolanda, "Perlindungan Hukum Bagi Nasabah Dalam Pinjaman Online Ditinjau Dari Peraturan Otoritas Jasa Keuangan Nomor 77/Pojk.01/2016 Tentang Layanan Pinjam Meminjam Uang Berbasis Teknologi Informasi," *Nusantara Hasana Journal* 2, No. 1 (2 Juni 2022): 43.

In Islamic jurisprudence (*fiqh*), the practice of lending and borrowing is often referred to as "*ariyah*." The term "*ariyah*" has various interpretations among scholars. According to Syarkhasih and Malikiyah scholars, it involves transferring the rights of benefits without compensation. In contrast, the Shafi'i and Hanabilah schools define it as permission to use others' goods without charge. "*Ariyah*" differs from "grant" or "assistance" as it pertains to the loan of goods for benefit, unless expressly prohibited by the owner, according to Malikiyah scholars and Imam Syarkhasi. However, the Shafi'i and Hanabilah scholars limit "*ariyah*" contracts to short-term agreements.¹³

In Arabic, "*aqd*" refers to engagement, agreement, or consensus. In *fiqh* literature, a contract is defined as a relationship established through the expressions of offer (*ijab*) and acceptance (*kabul*), adhering to Sharia principles and affecting the contract object.¹⁴

According to Fatwa No. 117/DSN-MUI/II/2018 by the National Sharia Council of the Indonesian Ulema Council, information technology-based financing services that connect financiers and borrowers through electronic systems over the Internet comply with Sharia principles. In Islamic law, online lending and borrowing agreements are deemed valid only if they meet specific conditions and pillars outlined by Sharia principles.

The application of Islamic rules in online

lending and borrowing is grounded in philosophical, juridical, and historical reasoning. Islamic law comprehensively regulates all aspects of life, serving as a normative framework and a social institution that legitimises societal changes in accordance with Islamic teachings and evolving social dynamics.

This sociological analysis of Islamic law concerning online loans aims to understand how practices are implemented and assesses how Islamic jurisprudence influences the management systems or procedures of online lending.

Table 3. The implementation of Sharia principles in online lending.

Sharia Principle	Analysis
Profit-sharing (Mudharabah)	Online lending platforms often structure transactions based on profit-sharing models, ensuring both parties share in financial outcomes.
Prohibition of Interest Riba (usury)	Compliance with Sharia principles prohibits the charging or receipt of interest on loans, promoting ethical financial practices aligned with Islamic teachings.
Transparency	Platforms must ensure transparency in transactions, disclosing terms, conditions, and fees upfront to borrowers, fostering trust and accountability.

Table 3 highlights key Sharia principles in online lending: Profit-sharing (Mudharabah) promotes mutual benefit, the prohibition of interest (Riba) ensures ethical practices, and transparency demands full disclosure of terms and fees.

Regulations to Protect Customers Affected by Online Loans

Article 1, Number 17 of the Electronic Information and Transactions (ITE) Law defines Electronic Contracts as agreements between parties conducted through an Electronic System. According to Article 18,

¹³ Saputra, Sudiarti, Dan Husna, "Konsep Al-'Ariyah, Al-Qardh Dan Al-Hibah," 20.
¹⁴ Ade Priagung Wicaksono, "Makna Causa Yang Halal Dalam Pembiayaan Mudharabah Di Bank Syariah," 14 Mei 2019, 67, <https://Repository.Unej.Ac.Id/Xmlui/Handle/123456789/90879>; Nunung Rodliyah, Nila Nargis, Dan Abdur Rohman Husen, "Kedudukan Fatwa Terhadap Dasar Hukum Penyelesaian Sengketa Ekonomi Syariah Melalui Basyarnas," *Nizham: Jurnal Studi Keislaman* 7, No. 01 (12 Juli 2019): 12.

Paragraph (1) of the ITE Law, Electronic Transactions outlined in Electronic Contracts are legally binding on the parties. Therefore, online loans fall under the purview of these regulations.

Under Part Two, Data Confidentiality of Financial Services Authority Regulation (POJK) Number 77/POJK.01/2016 concerning consumer protection, Article 26 specifies the obligations of organisers of Technology-Based Money Lending and Borrowing Services:

a. Maintaining the confidentiality, integrity, and availability of proprietary data, transactions, and financial data that they manage, b. ensuring that authentication, verification, and validation processes are accessible, processed, and implemented easily, c. guaranteeing that the collection, use, utilisation, and disclosure of exclusive data, transaction data, and financial data obtained from the organiser is carried out with the consent of the owner of the personal data, transaction data, and financial data unless otherwise stipulated by law, d. providing additional communication facilities, aside from the electronic system of Technology-Based Money Lending and Borrowing Services to ensure customer service remains operational, such as electronic mail, call centres, or other means of communication, e. notifying the owners of personal data, transaction data, and financial data in writing if their personal data, transaction data, and financial data are not adequately protected.

These regulations are designed to safeguard the interests and rights of consumers involved in online lending and borrowing activities, ensuring transparency, data security, and effective customer service.¹⁵

¹⁵ Kusumaningtyas, Yudhanti, Dan Widyastuti, "The Urgency Of Organizing Insurtech In Improving Insurance Services Based On Pojk No.

Government Efforts to Stop Prohibited Online Loans

President Joko Widodo highlighted the surge in Indonesia's online lending sector, which has coincided with an increase in fraudulent activities harming the public, as reported by Kompas News. Individuals from lower socioeconomic backgrounds often fall victim to deceptive practices and exorbitant interest rates imposed by online lenders, leading to coercive measures for loan repayment. President Joko Widodo urged the Financial Services Authority (OJK) to ensure responsible growth of the digital financial services industry by establishing a robust lending ecosystem and implementing stringent mitigation measures. With rapid and thorough supervision under President Joko Widodo's leadership, Indonesia holds significant potential to rank as the third largest digital economy globally, following China and India.

In addressing this issue, Article 33, Paragraphs (1) and (4) of the 1945 Constitution of the Republic of Indonesia must serve as a stronger foundation for optimising OJK regulations concerning online loans. Paragraph (1) emphasises the economy founded on principles of social justice, while Paragraph (4) underscores the operation of the national economy based on balanced progress and national economic unity. However, the 2016 Financial Services Authority Regulation (POJK) lacks specific provisions on OJK sanctions and robust actions against illegal online loans (known as *pinjol*), which could serve as effective deterrents. Presently, the regulation only governs registered or licensed lenders.

The sole recourse available is administrative penalties, such as website blocking or closure. This regulatory gap

13/Pojk.02/2018 Regarding Digital Financial Innovation In The Financial Services Sector," 412.

underscores the necessity and rationale for stricter regulation and optimisation of the illicit online lending industry

The widespread spread of Pinjol in Indonesia

The rampant proliferation of illegal online lending (*Pinjol*) in Indonesia has raised significant concerns and led to several alarming incidents. According to reports from [Jatengprov.go.id](#), Kombes Johanson Ronald Simamora, Director of Special Criminal Investigation at the Central Java Regional Police, has identified 34 illegal online loan applications under investigation for their operations. The authorities are currently examining whether these applications are interconnected.

In a tragic incident in September 2021, a woman took her own life after being unable to repay a loan taken from one of these applications. To settle her debts, she resorted to borrowing from ten different applications. The Central Java Regional Police have already apprehended four individuals involved in these illegal lending activities, with one person charged as a suspect and the others treated as witnesses. The victim had initially been enticed by promises of low interest rates and a short one-month repayment period. Furthermore, she had unwittingly granted access to her personal data, including contact details and gallery photos, which were exploited by the *Pinjol* application.

In another incident in October 2021, three individuals were arrested in Yogyakarta for an illegal lending operation housed in a shophouse. Operating for six months, this establishment had defrauded approximately 35 victims. These events were reported by [Kompas.com](#).

In response to these issues, the Financial Services Authority (OJK) has repeatedly updated and published lists of licensed and

registered fintech companies. This effort aims to help the public distinguish legitimate lending platforms from illegal ones. Notable licensed fintech platforms include ShopeePayLater, Danamas, Investree, Amarta, Dompot Flash, Kimo, Toko Modal, Friends Money, Modalku, KTA Flash, Smart Credit, Want Cash, Finmas, Klik ACC, Akseleran, Amana.id, KreditGo, CoinP2P, and Pohandana, among others. These companies were officially registered by OJK as of October 6, 2021. OJK advises the public to exercise caution and verify the legitimacy of online lending platforms by accessing information through the official OJK website.

These incidents underscore the urgent need for stricter regulations and enhanced public awareness to curb the proliferation of illegal online lending activities in Indonesia.

Analysis from the Islamic Law Perspective

According to Fatwa No. 117/DSN-MUI/II/2018 issued by the National Sharia Council of the Indonesian Ulema Council, information technology-based financing services connecting financiers and borrowers through electronic systems over the Internet must adhere to Sharia principles. Islamic law stipulates that online lending and borrowing agreements are valid only if they meet specific conditions and pillars outlined by Sharia principles.

The application of Islamic rules in online lending and borrowing is rooted in philosophical, juridical, and historical reasoning. Islamic law provides comprehensive guidance across all facets of life, serving as a normative framework and a social institution that legitimizes societal changes in line with Islamic teachings and evolving social dynamics.

However, there remains a gap in the current analysis regarding how these principles are practically implemented in the

mechanisms of online loans within society. While the MUI fatwa outlines the regulatory framework, further empirical investigation is needed to assess how effectively these principles influence online lending platforms' actual management systems and operational procedures. This sociological analysis of Islamic law concerning online loans aims to bridge this gap by examining the practical implementation of Sharia principles and their impact on the management and regulation of online lending practices.

Table 4. The spread and issues of Pinjol in Indonesia from an Islamic law perspective.

Sharia Principle	Analysis	Implications
Profit-sharing (Mudharabah)	Online lending platforms often structure	Encourages equitable distribution of profits
	Transactions based on profit-sharing models, ensuring both parties share in financial outcomes.	between lenders and borrowers.
Prohibition of Interest (Riba)	Compliance with Sharia principles prohibits	Ensures transactions are free from exploitative
	The charging or receipt of interest on loans, promoting ethical financial practices aligned with Islamic teachings.	interest charges, promoting fairness and ethical conduct.
Transparency	Platforms must ensure transparency in transactions, disclosing terms, conditions, and fees upfront	Enhancing trust by providing clear information on terms, fees, and conditions, reducing potential disputes and misunderstandings.
	to borrowers, fostering trust and accountability.	

Table 4 reviews key Sharia principles for online lending, their application on digital platforms, and their impact on financial ethics and consumer protection. It connects

the discussion of online lending issues in Indonesia with their Islamic law solutions.

Conclusion

Based on the discussions presented above, it can be concluded that fintech, including online loans, represents innovative advancements in the financial sector facilitated by modern technology. Sharia-compliant online loans similarly incorporate religious values that distinguish them within the market. The application of Islamic legal principles in this context is rooted in philosophical, juridical, and historical foundations, serving to harmonise these principles with contemporary social dynamics.

Islamic law, or *fiqh*, not only serves as normative guidance theoretically applicable to all facets of life but also functions as a pivotal social institution within Islam, legitimising desired changes in accordance with its teachings. The sociological analysis of Islamic law concerning online lending aims to assess its efficacy in setting standards and harmonising social dynamics with Islamic beliefs.

Financial Services Authority Regulation Number 77/POJK.01/2016, particularly its second part focused on consumer protection, plays a crucial role in ensuring clear protections for consumers engaged in financial transactions, including online lending. President Jokowi's proactive stance in urging the OJK to promote financial inclusion and assist victims of illegal loans underscores the government's commitment to safeguarding consumer interests in the digital financial services sector.

These measures aim to enhance regulatory oversight, promote ethical practices, and mitigate risks associated with online lending, thus fostering a more secure and inclusive financial environment for all stakeholders involved.

Credit Authorship Contribution

Ermanita

Permatasari:

Conceptualization, investigation, Writing - Original Draft, and supervision. **Siti Fatimah:** Conceptualization, resources, and Writing - Review & Editing. **Nuri Safitri:** Methodology, Formal analysis, and data curation. **Roma Wijaya:** Methodology and resources.

Declaration of Competing Interest

The authors declare no competing interests related to this study. No financial or personal conflicts of interest are present.

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