

# REGULATORY ROLES IN SHARIA PEER-TO-PEER LENDING FOR SUSTAINABLE MICRO, SMALL, AND MEDIUM ENTERPRISES FINANCING IN INDONESIA

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## Abstract

The advancement of digital technology has greatly influenced various sectors, including finance. Peer-to-Peer (P2P) lending, particularly Sharia P2P lending, has emerged as a significant fin-tech innovation, providing financing solutions for Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. MSMEs play a critical role in economic growth, but they often face challenges in accessing formal financial services. Sharia P2P Lending offers an alternative financing model that adheres to Islamic principles, such as the prohibition of *riba* (interest) and speculative transactions. This study examines the role of regulatory factors in shaping the Sharia P2P Lending business model to enhance sustainable MSMEs financing. It focuses on the legal and regulatory frameworks established by the Financial Services Authority (OJK) and the National Sharia Board (DSN-MUI). Using a qualitative approach combined with the Analytic Network Process (ANP), the research highlights that regulatory factors, particularly those ensuring compliance with Sharia principles and safeguarding consumer protection, are key drivers of a sustainable Sharia P2P Lending ecosystem. The findings indicate that stronger regulation, coupled with enhanced consumer literacy, can bridge the financing gap for MSMEs and foster more inclusive and sustainable economic growth in Indonesia. Strengthening the regulatory framework is essential for the long-term success of Sharia P2P Lending in supporting MSME development and financial inclusion.

**Keywords:** Sharia P2P Lending; MSME Financing; Fintech Regulation; Sustainable Financing; Islamic Finance

## Introduction

The development of digital technology has brought significant changes to various aspects of life, including the financial sector. This digital revolution forces companies to change traditional business models to compete in an increasingly competitive and uncertain industrial environment (Hitt, M. A., Ireland, R. D., & Hoskisson, 2019). One of the most prominent technological innovations in the financial sector is financial technology (fintech), which offers new solutions through faster, easier, and more affordable financial services (Batunanggar, 2019).

Among various fintech innovations, P2P lending services have become one of the most widely implemented in Shariah fintech across many countries. In the ASEAN region, the growing trend shows that Shariah fintech providers are increasingly focusing on financing MSMEs to accelerate economic growth (CCAF et al., 2019). Shariah P2P lending not only provides easy access to financing for people who have difficulty obtaining financing from conventional financial institutions but also ensures that these services comply with Shariah principles, such as the prohibition of interest (*riba*) and speculative transactions (*maysir*) (Sari, 2023).

MSMEs are one of the main pillars in Indonesia's economic development (Marliyah, Nawawi M Zuhri, 2022). The role of MSMEs in creating jobs, reducing poverty, and increasing Gross Domestic Product (GDP) is significant (Erdirin & Ozkaya, 2020). However, one of the main challenges faced by MSMEs is the limited access to formal financing sources. Research shows that this barrier reduces the ability of MSMEs to increase productivity, expand markets, innovate, and adopt new technologies (Minetti & Zhu, 2011)(Rahaman, 2011).

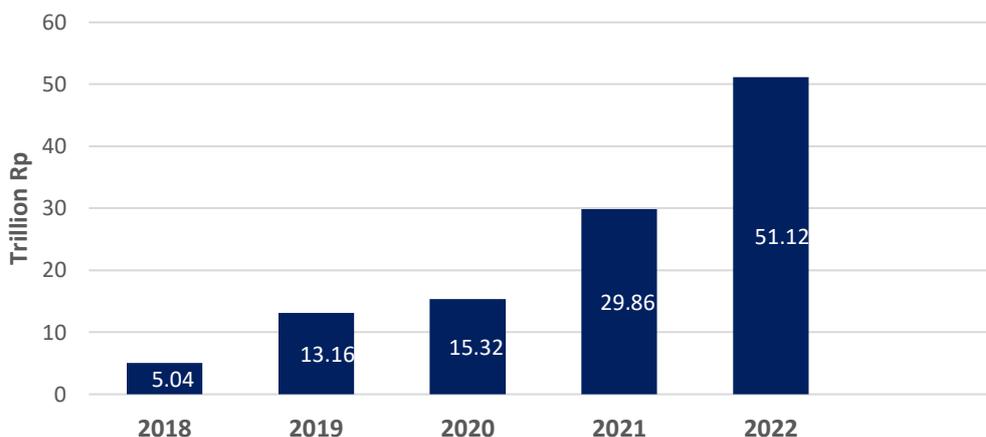
In the face of these challenges, fintech offers an alternative solution through financing services that are more accessible to MSMEs. A study found that the use of P2P lending as an external financing source is an effective solution in helping MSMEs overcome financial difficulties (Sun, 2015). MSMEs that utilize digital technology are able to innovate, make business breakthroughs, and compete in international markets (Linawati & Moeljadi Moeljadi, Djumahir Djumahir, 2020). Thus, digital technology has become one of the driving factors for the productivity of MSMEs.

The Indonesian government has identified fintech as a sector with great potential to support MSMEs underserved by banking institutions (AFTECH, 2021). P2P lending services, including Shariah P2P Lending, have become one of the fastest-growing financial innovations in Indonesia, with significant growth in total financing over the past five years. The total P2P lending financing in 2022 reached IDR 51.12 trillion. Compared to the 2018 figures, this amount grew by approximately 1,054 percent, as shown in Figure 1 below.

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**Figure 1 P2P Lending Fintech Funding Value (Trillion Rupiah)**

**Source: OJK (processed), 2023**

On the other hand, there is a growing gap between the financing needs of MSMEs and the capacity of financial institutions to meet these needs. A report by EY Parthenon and the Indonesian Joint Funding Fintech Association (AFPI) estimates that the MSMEs financing gap in Indonesia could reach IDR 4,300 trillion by 2026, while the capacity of financial institutions is only expected to provide IDR 1,900 trillion (Pasar & Kebijakan, 2023). This condition underscores the urgency of developing a more innovative and inclusive Shariah P2P Lending business model to address the financing needs of MSMEs.

Regulation plays a key role in supporting the sustainability of the Shariah P2P lending business model in enhancing sustainable MSMEs financing. MSMEs that have business sustainability are those that demonstrate business growth over time. There are three measurable variables to determine business growth: financial growth, strategic growth, and organizational growth (Eresia-Eke & Raath, 2013).

Several regulations have been issued by OJK and other related institutions to regulate the fintech industry in Indonesia, including Shariah fintech. However, challenges remain, particularly concerning consumer protection, data security, and illegal fintech practices that damage the fintech business ecosystem (Rohman, A. N., Sugeng, Fitriana, D., & Aidi, 2021). Many illegal P2P lending platforms remain poorly monitored, potentially causing harm to consumers. Consumers often experience misuse of personal data or unethical treatment during the collection process (Rizki, 2018). Data security is also a major concern, especially since fintech technology relies heavily on consumer data, which is vulnerable to leaks and misuse, as seen in several major global scandals (Yasushi Suzuki, 2022). Weak law enforcement against illegal fintech and data breaches damages the healthy fin-tech ecosystem. On the other hand, there is a need to improve the supervisory capacity of OJK and other related institutions to keep pace with the rapid developments in the fintech industry (R. Wulandhari, 2019)

Regulation in the Shariah fintech sector also faces challenges in terms of financial and technological literacy among the public, particularly MSMEs. Many MSMEs players still lack a deep understanding of the mechanisms of Shariah P2P Lending, including its risks. Limited financial literacy and a low understanding of existing regulations make people easily deceived by illegal fintech platforms or face problems in accessing services that comply with Shariah principles (Sugeng et al., 2020). OJK and the government need to address this by strengthening financial and technological education, so that society is better prepared to adapt to fintech developments.

Additionally, compliance with Shariah principles must be ensured in every operational aspect of Shariah P2P lending platforms, including product structure, transaction processes, and adopted policies (Sari, 2023). Challenges arise when fintech business models, which are inherently innovative and dynamic, must align with Shariah principles that tend to be more conservative. The Shariah audit process, which does not always run optimally, adds to the complexity of Shariah compliance, often creating doubts for MSMEs that prioritize Shariah principles when accessing financing.

These challenges indicate that the role of regulation is not only to provide a legal framework for the industry but also to ensure the sustainability of Shariah P2P lending as a solution to increase MSMEs access to financing while maintaining compliance with Shariah principles and consumer protection. This article aims to explore the role of regulation in shaping the Shariah P2P lending business model to support sustainable MSMEs financing in Indonesia. Focusing on regulation and compliance with Shariah principles, this article will discuss how Shariah P2P lending can act as a solution to address MSMEs financing challenges and promote inclusive economic growth.

## Literature Reviews

### Sharia Fintech

Both conventional fintech and Shariah fintech have similar definitions, but they differ in terms of their underlying principles. Shariah fintech is based on Islamic law, particularly in economic transactions (S. B. M. Hasan, 2018). The implementation of Shariah fintech must align with Shariah provisions (Shariah compliance) in accordance with the regulations of the relevant authorities (A. N. Rohman, 2023). Therefore, fintech refers to a technology-based business that offers innovative financial products or services adhering to Shariah principles. Sharia fintech, based on the Fatwa of DSN-MUI No. 117/DSN-MUI/II/2018 (Dewan Syariah Nasional Majelis Ulama Indonesia, 2018) is defined as providing financial services based on Sharia principles, which connect providers of financing with recipients of financing to conduct financing contracts through an electronic system using the internet. The fatwa also states that Sharia fintech must not contradict Sharia principles, such as avoiding riba (usury), gharar (unclear contracts), maysir (speculation), tadlis (non-transparency), dharar (harm), zhulm (oppression), and haram.

These descriptions highlight that Sharia fintech functions as a digital financial service designed to integrate innovation with ethical and moral responsibility. By promoting transparency, justice, and adherence to Sharia values, this financial model contributes to inclusive and sustainable economic development in line with the objectives of Islamic law (maqasid al-shariah).

### MSMEs

Labor criteria and sales value are the most accurate parameters for defining MSMEs (Ardic et al., 2011). Meanwhile, there are three commonly used criteria by many countries or organizations to define MSMEs: the number of employees, annual sales value, and total assets. Many countries worldwide use these three criteria (Bloem & College, 2012). According to Articles 35-36 of Government Regulation No. 7 of 2021, the classification of MSMEs is based on business capital or annual sales results (Pemerintah Indonesia, 2021).

**Table 1. Types of MSMEs According to Indicators in Government Regulation No. 7 of 2021**

Category	Business Capital	Annual Sales Results
Micro Enterprises	Up to IDR 1,000,000,000, excluding land and business buildings	Up to IDR 2,000,000,000
Small Enterprises	More than IDR 1,000,000,000 up to IDR 5,000,000,000, excluding land and business buildings	More than IDR 2,000,000,000 up to IDR 15,000,000,000
Medium Enterprises	More than IDR 5,000,000,000 up to IDR 10,000,000,000, excluding land and business buildings	More than IDR 15,000,000,000 up to IDR 50,000,000,000

Source: Government Regulation No. 7 of 2021

The literature shows that definitions of MSMEs generally rely on quantitative and financial indicators that reflect business scale and capacity. Although such benchmarks are commonly applied at the international level, Indonesia employs a more detailed categorization through its national legal framework, which uses capital ownership and revenue performance as key determinants. This classification system establishes legal clarity and consistency, serving as a vital foundation for formulating strategies and policies that promote the growth and sustainability of the MSMEs sector.

### Regulation

In Black's Law Dictionary, regulation is defined as “a rule or order, having legal force, issued by an administrative agency or a government,” which means a regulation or decision that has legal force, issued by the government (Bryan A. Garner, 2009). In Indonesia, regulation is understood as a formal source of law in the form of legislation, which includes several elements: it is a written decision, formed by a state institution or authorized official, and is generally binding (ICW, 2012).

Drawing from the reviewed concepts, regulation functions as a legally binding instrument established by competent authorities to guide and control public conduct. In the context of Indonesia’s financial sector, this function is reflected in the regulatory framework governing Sharia P2P lending. Such regulations are designed to ensure that digital financial activities operate within the boundaries of national law while adhering to Sharia principles. OJK and DSN-MUI play central roles in supervising and issuing guidelines that maintain legal certainty, consumer protection, and Sharia compliance within the Islamic fintech ecosystem.

### Business Model

A business model can be defined as a detailed plan for implementing a strategy concerning the structure, processes, and systems within a company's organization (Osterwalder et al., 2010). In more detail, a business



model is defined as the way an organization interacts with its environment by developing strategies, building resources, and capabilities to deliver value to stakeholders (Carter & Carter, 2020; Pizzi et al., 2021). In essence, a business model reflects how an organization designs its structure, resources, and processes to create and deliver value. In the case of Shariah peer-to-peer lending in Indonesia, the business model serves as a framework that integrates technological innovation with Shariah principles, enabling financial service providers to facilitate ethical, transparent, and inclusive financing for MSMEs in accordance with Islamic law.

### Methodology

The type of research used in this study is qualitative research, which is transformed into quantitative research using the Analytic Network Process (ANP) method. ANP is a mathematical theory that allows decision-makers to systematically address interrelated factors and feedback. In other words, ANP is one of the decision-making methods that involve various criteria (Multiple Criteria Decision Making) developed by Thomas L. Saaty, a professor at the University of Pittsburgh (Hendri Tanjung, 2018).

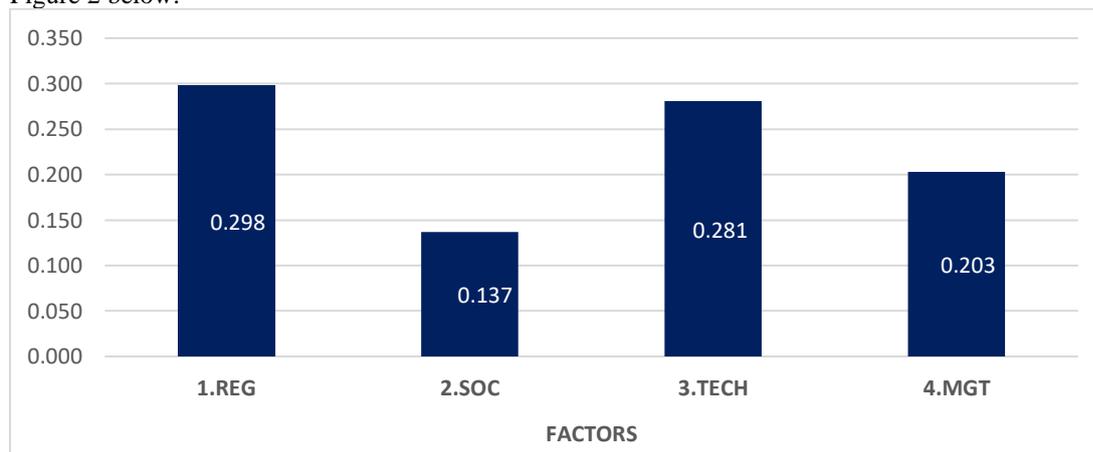
The primary data collection instruments in this study are interviews and questionnaires. Interviews are conducted with experts and practitioners who possess knowledge about the issues being examined to gather data for decomposing the research problem, specifically in uncovering the role of social, regulatory, and technological factors in shaping the Shariah P2P lending business model to enhance sustainable MSMEs financing in Indonesia. The respondents in this study include nine experts and practitioners with competence in their respective fields, including academics, regulators, and practitioners.

### Results and Discussion

#### Prioritization of Factors Shaping the Shariah P2P Lending Business Model for Sustainable MSME Financing in Indonesia

In the context of sustainable financing for MSMEs in Indonesia, several factors influence the Shariah P2P lending business model. These factors can be grouped as follows: (1) Regulation (Reg): Refers to the regulatory framework of the fintech ecosystem; (2) Technology (Tech): Relates to the infrastructure and technological innovations within the fintech sector; (3) Managerial (Mgt): Involves the management practices and operational strategies applied by P2P lending platforms; and (4) Social (Soc): Encompasses social dynamics and community engagement aspects in the fintech landscape.

Based on the analysis conducted in this research, regulation emerges as the highest priority factor in shaping the Shariah P2P lending business model aimed at increasing sustainable MSMEs financing, with a geometric mean (g-mean) of 0.298 among all respondents. The prioritization of other factors is as follows: Technology (g-mean: 0.281), Managerial (g-mean: 0.203), and Social (g-mean: 0.137). The results of the analysis can be illustrated in Figure 2 below:



**Figure 2. Priority Clusters of Factors Shaping the Shariah P2P Lending Business Model for Sustainable MSMEs Financing**

Source: Research findings, 2023

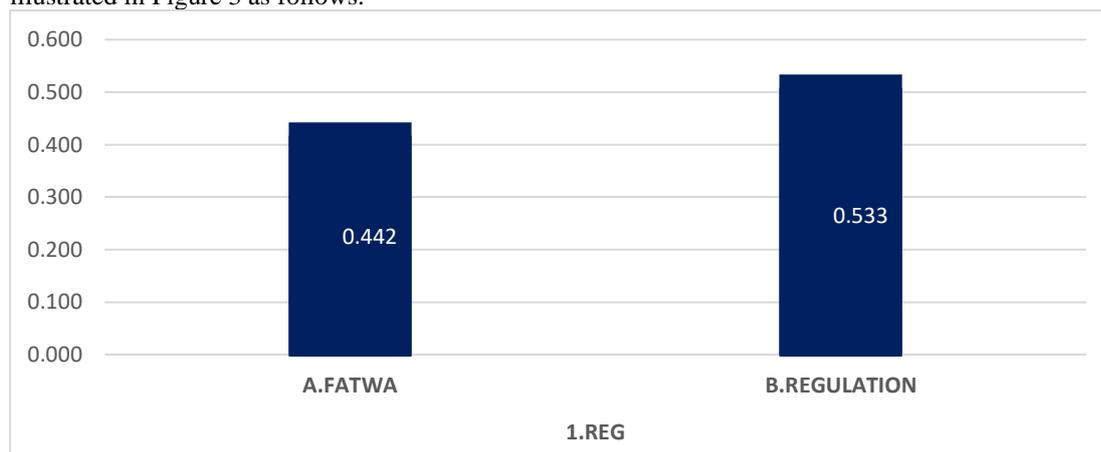
These results indicate that the regulatory aspect of the fintech ecosystem plays a crucial role in shaping the Shariah P2P lending business model for sustainable MSMEs financing.

#### Prioritization of Sub-Clusters within the Regulatory Factors

Within the regulatory framework, there are two key components that significantly influence MSMEs financing in Indonesia: (1) Fatwa: Refers to Shariah principles governing the operation of Shariah P2P lending, issued by DSN-MUI; and (2) Regulation: Refers to the operational guidelines for Shariah P2P lending established by OJK.



The analysis shows that, among these regulatory sub-cluster factors, regulation holds the highest priority, with a g-mean of 0.533. By comparison, fatwa follows with a g-mean of 0.442. The results of this analysis can be illustrated in Figure 3 as follows:



**Figure 3. Priority Sub-Clusters within the Regulatory Factors**

Source: Research findings, 2023

Overall, this analysis emphasizes that regulatory factors, particularly the operational regulations issued by the OJK, are crucial for improving the Shariah P2P lending business model in supporting sustainable MSMEs financing in Indonesia.

In the rapidly growing Shariah fintech industry, regulation and governance become key elements in protecting all parties involved, including business owners, industry players, and consumers. Several countries have made efforts to facilitate the development of this industry, and collaboration between financial institutions, fintech companies, and regulators is becoming increasingly important to support the sustainable growth of Islamic fintech. Moreover, increasing awareness and education about Islamic fintech among consumers and industry players is key to accelerating the adoption of this technology.

The potential growth of fintech requires strong policy direction from regulators. The main goal is to achieve a balance that protects consumers, maintains financial stability, and encourages innovation in the fintech industry (Jagtiani & John, 2018). Fintech companies that comply with regulations and apply good governance practices tend to have solid risk management and high competitiveness in the market. On the other hand, for consumers, effective regulations can enhance their sense of security and strengthen their trust in the fintech products and services offered (AFTECH, 2023). A clear and detailed regulatory framework is essential for regulating fintech activities effectively. Strong regulations not only provide legal certainty for industry players but also protect customers from potential risks. With adequate regulation, the fintech industry can grow in a more structured and trustworthy manner (CCAF et al., 2019).

The challenges faced by the fintech industry are significant. The emergence of illegal fintech poses a high risk in Indonesia, particularly in P2P lending platforms (Zheng et al., 2022). Fintech regulations and policies require swift decisions to provide legal protection for all parties involved. Unfortunately, technological developments often outpace existing legal frameworks, creating challenges for regulators in keeping up with the evolution of fintech. Over the past two years, OJK as the main regulator has banned more than 400 platforms that failed to register or were involved in fraudulent activities, emphasizing the importance of strong regulations to maintain the integrity of the industry.

Regulators play a crucial role in the Shariah fintech ecosystem. They are responsible for overseeing the activities of fintech companies to ensure compliance with applicable regulations and to ensure that financial transactions adhere to Shariah principles. In addition, regulators also contribute to forming policies and standards that support the sustainable development of Shariah fintech. Although many countries have established regulations governing P2P lending practices in general, there are no specific regulations that govern Shariah P2P Lending practices. Therefore, Shariah P2P Lending platforms must comply with the existing regulations applicable to Shariah financial institutions in general.

Regulatory factors play an important role in developing Shariah P2P Lending business models. Regulations in Indonesia in this context are divided into two main components: (a) regulations from fintech regulators (OJK), and (b) regulations in the form of fatwas from DSN-MUI. Shariah P2P Lending is a promising alternative for financing MSMEs in Indonesia; however, to realize this potential, strong policy guidance from the government and regulators is needed. Additionally, strategic breakthroughs are required to address the financing gaps for MSMEs, with support from all stakeholders in the Shariah finance and banking sector.

Islamic economics, in which Sharia finance is an important part, is broadly based on several prohibitions and recommendations. The prohibition of *riba* (usury) and the encouragement of trade, as enshrined in the Qur'an Surah Al-Baqarah verse 275 [Allah has permitted trade and prohibited usury], motivate financial activities based on real economic activities. This implies that all financial activities must represent real transactions involving the sale of products and services or benefits. Several principles in Islamic finance include avoiding *riba* (interest rates), avoiding ambiguity in transactions (*gharar*), and avoiding gambling (*maysir*) (Ayub & Paldi, 2015). To date, there are no specific regulations from OJK or Bank Indonesia (BI) that directly govern Sharia fintech. To ensure adequate consumer protection, it is important to specifically regulate Sharia fintech in legislation. Thus, legal certainty, fairness, and benefits can be achieved more effectively (Noor et al., 2021).

The Financial Services Authority Regulation (POJK) No. 10/POJK.05/2022 concerning Information Technology-Based Money Lending Services is considered a preliminary step by regulators to support the development of Sharia fintech. However, this regulation does not provide a specific definition for Sharia P2P lending. The practice of Sharia P2P Lending must adhere to generally accepted Sharia principles, such as being free from elements of *riba* (usury), speculation (*maysir*), and unclear transactions (*gharar*), as well as following principles of fairness and social responsibility. The absence of regulations from OJK and BI is complemented by fatwas issued by DSN-MUI. In 2018, the DSN-MUI published Fatwa No. 117/DSN-MUI/II/2018 regarding Technology-Based Financing Services that comply with Sharia principles (L. Hakim & R. A.Hapsari, 2022).

Monitoring of the fintech industry is conducted by two institutions, namely BI and OJK, each with its authority in regulating and supervising this sector. Although both are responsible for regulating fintech, they focus on different segments. BI focuses on regulations aimed at facilitating innovation in the financial sector while maintaining monetary stability and ensuring that payment systems operate efficiently, smoothly, safely, and reliably. Conversely, OJK seeks to ensure that fintech regulations provide optimal benefits to the public by accommodating responsible, secure digital financial innovations that prioritize consumer protection and effective risk management. Nevertheless, both BI and OJK emphasize the importance of business responsibility and customer protection in the fintech regulations they issue (L. Hakim & R. A.Hapsari, 2022).

In the historical development of modern financial systems, the Sharia financial system demonstrates significant direction and appeal. Currently, the Sharia system encompasses a variety of products and services offered by the Sharia financial industry to provide financial institution services based on Sharia principles. In this regard, fatwa institutions play a very important role (Khan & Atiq-uz-Zafar, 2019). The expansion of fintech, which is inseparable from global technological advancements in the Sharia financial sector, requires support from the fatwas of scholars to ensure Sharia compliance. The growth of fintech also brings new challenges for Islamic financial institutions, including issues of efficiency, customer retention, transparency, accountability, and viability (R. Hasan et al., 2020). The importance of fatwas regarding the implementation of fintech to ensure its halal status, especially as fintech has now become an essential part of the financial industry (El Amri, M.C., Mohammed, 2021).

The Fatwa of DSN-MUI No. 117/DSN-MUI/II/2018 highlights issues related to digital finance, particularly concerning P2P lending. In this fatwa, DSN-MUI provides an Islamic legal perspective on the rapidly growing practice of P2P lending, including the types of contracts and risk-sharing mechanisms involved. This fatwa serves as an important reference for Sharia P2P Lending industry players in Indonesia to ensure that their practices comply with Islamic legal provisions. It also serves as guidance for consumers and investors who wish to engage in P2P lending practices to understand the Sharia implications of these activities.

MSMEs need to be assured that Sharia P2P Lending platforms provide reliable services that comply with Sharia regulations. Clarity regarding Sharia compliance and transaction security are crucial aspects that influence MSMEs' trust in these platforms. Sharia compliance must be prioritized in every operational aspect of the platform, including product structure and transaction processes. Transaction security is also essential to ensure that user data and funds are protected from misuse. To build trust, Sharia P2P Lending platforms need to guarantee that their protection systems are robust and capable of maintaining transaction integrity and user information confidentiality. Additionally, transparency of information (products, services, fees, and risks), disclosure of terms and conditions, clear management of investor funds, and protection against asset misuse will strengthen MSMEs' confidence in the platform.

In developing fintech regulations, regulators often opt for a principle-based regulatory approach, where regulators establish a set of principles and rules focused on outcomes.

In Indonesia, the OJK as a regulator has also adopted a principle-based approach. The OJK's principle-based approach in formulating fintech regulations primarily focuses on the following objectives: (1) Helping to offer alternative funding access and supporting national financial inclusion strategies; (2) Supporting P2P lending companies in contributing to the national economy, including accelerating fund distribution for MSMEs; (3) Protecting consumer interests, such as against misuse of funds and user data; and (4) Protecting national security, including efforts to combat money laundering, prevent terrorism financing, and maintain financial stability (AFTECH, 2022).

Thus, good regulation, especially those adopting a principle-based approach, is not merely a formality but a fundamental pillar supporting the sustainability and growth of the fintech industry, particularly Sharia P2P lending, in Indonesia. This approach facilitates innovation while ensuring consumer protection and market stability, creating a healthy and sustainable ecosystem within the financial sector.

Consumer protection refers to the actions taken by governments, institutions, and organizations to safeguard the rights and interests of consumers in various trade transactions. It encompasses a range of policies, regulations, and practices aimed at ensuring that financial products and services are not only safe but also of high quality and in line with the promises made. In the context of financial institutions, consumer protection includes various policies, practices, and regulations designed to protect the rights and interests of consumers in financial transactions, including banking, investment, insurance products, and others. These protection efforts are crucial for building public trust and maintaining the stability of the overall financial system. With robust consumer protection, the potential for financial crises can be minimized, public participation in financial markets can increase, and financial well-being can improve.

Consumer protection and data security are major concerns for fintech providers. While fintech offers financial services through user-friendly platforms, it also opens up the possibility of customer data misuse. In extreme situations, fintech can threaten financial stability if business risks are not well managed. Therefore, the implementation of consumer protection programs demonstrates that fintech companies are serious about safeguarding consumer interests and building strong trust relationships. It is anticipated that the concept of customer protection will evolve in the future, in line with the increasing social awareness of society (AFTECH, 2023).

Fintech aims to stimulate innovation in the financial sector by applying consumer protection and prudent risk management to maintain monetary stability, the reliability of the financial system, and efficiency in the payment system (A. Soemitra, 2023). The World Bank notes that consumer protection in the financial services industry can enhance efficiency, transparency, competition, and access to the sector by reducing information asymmetry and disparities in the positions between financial service providers and consumers. These protection policies also have the potential to build trust in the financial sector by promoting transparency of products and services, preventing unfair practices, and providing standards for handling complaints from consumers who feel aggrieved (World Bank, 2012).

After the global financial crisis in 2008, attention to consumer protection in the financial services sector increased among regulators and supervisors worldwide. The crisis highlighted the importance of the relationship between financial system stability and consumer protection, which had previously been viewed as less significant. Following the crisis, many international regulators began to shift their focus towards consumer protection in the financial sector (The World Bank, 2014).

There are potential risks that arise if consumer protection in the financial services sector is not implemented optimally. These risks include the absence of a consumer protection culture within the industry, low oversight and governance of financial products and services, increased threats to the security of consumers' personal data, unfair standard agreements, and the lack of adequate complaint handling mechanisms. The absence of a consumer protection culture in the financial services industry can undermine national efforts to build market trust. On the other hand, low oversight and governance regarding product design, marketing, and dispute resolution can increase risks for consumers. Furthermore, weak personal data protection can lead to data misuse, and unfair standard agreements can disadvantage consumers. The lack of adequate complaint mechanisms can also worsen the situation, leaving consumers feeling unprotected.

Therefore, consumer protection in the financial services sector plays a crucial role in maintaining the stability of the financial system and supporting the economic growth of a country. Without effective protection, public trust in financial products and services may decline. Consumer protection is also essential in the context of contracts, particularly in addressing critical issues such as fraud, which often harms many consumers. In Islamic law, acts of fraud and consumer losses are prohibited, as stated in the Qur'an and Sunnah. Although the government has issued regulations to prevent the misuse of personal data without consent, consumer awareness regarding the importance of data privacy and their ability to control data usage in the e-commerce market still needs improvement (Almalki, 2021).

In general, consumer and community protection efforts in the financial services sector include preventive and repressive measures. Preventive protection, as mandated by the Law of the Republic of Indonesia No. 21 of 2011 concerning OJK, in Article 28, includes: (1) Providing information and education to the public regarding the characteristics of the financial services sector, its services, and products; (2) Requiring financial service institutions to cease operations if such activities are potentially harmful to the public; and (3) Other actions deemed necessary in accordance with the regulations in the financial services sector. Meanwhile, repressive measures refer to Article 29, which includes the provision of consumer complaint service systems, the development of complaint mechanisms, and support for resolving complaints from consumers harmed by actors in financial service institutions. In addition, this law grants OJK the authority outlined in Article 30 to take legal

action, including ordering or taking specific actions against financial service institutions to resolve complaints from harmed consumers (Indonesia, 2011).

The era of consumer protection in Indonesia began with the enactment of Law No. 8 of 1999 concerning Consumer Protection (UUPK) on April 20, 2000. The urgency for specific regulations addressing consumer protection became pressing, considering Indonesia's situation following recovery from the global financial crisis of 1998. The UUPK plays a crucial role in regulating and protecting consumers in the context of digital financial transactions facilitated by the fintech industry. The UUPK emphasizes the importance of consumer rights related to privacy and personal data security, transparency in relationships between businesses and consumers, and the establishment of standards for providing safe and reliable services. Additionally, the UUPK encourages enhancing consumer financial literacy, given the complexity of many fintech products and services.

The protection of spiritual rights in the UUPK demonstrates that consumer protection is not limited to physical and material aspects but also involves deeper and more universal needs. This includes the right to be respected and recognized as individuals with moral and ethical value, as well as the right to practice and observe religious beliefs without discrimination. The UUPK contributes to the creation of a just and equitable society by protecting consumers' spiritual rights from harmful practices.

In addition to Law No. 8 of 1999, POJK No. 6/POJK.07/2022 concerning Consumer and Community Protection in the Financial Services Sector, released by OJK, also holds significant meaning and purpose in safeguarding the interests of consumers and the public in financial services. Overall, POJK No. 6/POJK.07/2022 aims to create a safer and more transparent ecosystem for consumers and the public in the financial services sector, with the ultimate goal of enhancing financial inclusion and the economic welfare of the community (OJK, 2022a)

Law No. 27 of 2022 concerning Personal Data Protection is expected to enhance public digital trust in fintech companies (Indonesia, 2022). Furthermore, Law No. 4 of 2023 concerning the Development and Strengthening of the Financial Sector marks an important milestone for P2P lending providers that previously lacked legal foundations at the level of law (Indonesia, 2023). The presence of this regulation provides a clear and solid legal framework for the technology-based financial sector, significantly boosting public trust in this ecosystem. A crucial aspect of this law is granting OJK the authority to file for bankruptcy or defer payment obligations against P2P lending companies facing issues. This step represents an effective preventive action to maintain the stability of the financial sector, thus better managing risks for economic actors and the public. In Law No. 4 of 2023, consumer protection in the financial sector implements principles such as: (1) adequate education; (2) openness and transparency of product and/or service information; (3) fair treatment and responsible business conduct; (4) protection of assets, privacy, and consumer data; (5) effective and efficient complaint handling and dispute resolution; (6) enforcement of compliance; and (7) healthy competition.

In the practice of P2P lending, the POJK Number 10/POJK.05/2022 regulates the security systems applied in organizations and electronic systems(OJK, 2022b). To identify risks in this industry, the National Cyber and Crypto Agency (BSSN) collaborates with the Indonesian Peer-to-Peer Lending Association (AFPI) to conduct surveys regarding the implementation of cybersecurity, including phishing risks that could jeopardize customer data. Phishing is a form of cybercrime through social engineering attacks that deceive victims into providing credential information, potentially leading to sensitive data breaches and significant losses for organizations. Phishing practices exploiting human vulnerabilities, such as ignorance and low awareness of information security, are more commonly utilized by hackers.

Although the existing regulations sufficiently support innovation and investment in Indonesia's fintech industry, there are still other policies that need improvement. Areas expected to be enhanced include data privacy and security, regulatory clarity, e-Know Your Customer (e-KYC), the speed of licensing processes, reduction of bureaucracy, and regulations regarding digital signatures (AFTECH, 2023). Awareness and appropriate preventive actions are essential to protect sensitive information. With the increasing interconnectivity of applications, the risk of sensitive information theft rises. Therefore, there must be strict oversight of third-party services to ensure information security. The efforts made by the Indonesian Fintech Association (AFTECH) indicate improvements in cybersecurity; however, increasing awareness of potential risks is still necessary. Overall, consumer protection in the financial services sector and the fintech industry is an essential step to maintain public trust and the stability of the financial system, as well as to promote sustainable economic growth.

Based on the description above, it can be emphasized that in the financial industry sector, including dynamic and rapidly growing sectors like fintech, the presence of regulations and governance acts as an effective protector for various stakeholders, from owners and entrepreneurs to consumers. Fintech companies that comply with regulations and implement good governance usually have strong risk management and high competitiveness. For consumers, especially MSMEs, the implementation of regulations and good governance can provide security and strengthen their trust in the fintech industry. Thus, the presence of regulations will encourage industry players and customers to establish mutually beneficial relationships to ensure favorable conditions in the overall market.

## Conclusion

This study concludes that regulation plays a decisive role in shaping the Sharia P2P Lending business model for sustainable MSMEs financing in Indonesia. ANP analysis shows that among the four key factors—Regulation, Technology, Managerial, and Social—the regulatory factor holds the highest priority. Specifically, the operational regulations established by OJK and the fatwas issued by DSN-MUI serve as the main pillars in ensuring that Sharia P2P Lending operates in accordance with Sharia principles and supports ethical, transparent, and sustainable financing practices. These findings confirm the research objective that a well-defined and enforceable regulatory framework is fundamental to achieving sustainable MSMEs financing within the Islamic fintech ecosystem.

The results of this study also highlight that the existence of a strong regulatory structure not only ensures compliance with Sharia principles but also enhances consumer trust, strengthens risk management, and supports financial inclusion. Regulation functions as a guiding mechanism that harmonizes innovation with governance, ensuring that the rapid growth of fintech does not compromise the stability and integrity of the financial system. Thus, regulation serves as both a protector and an enabler in advancing the Sharia P2P Lending industry in Indonesia.

Future research should explore the dynamic interaction between regulatory developments and technological innovation in the Sharia fintech sector. Further studies could focus on developing an adaptive regulatory framework that accommodates innovation while maintaining Sharia compliance and consumer protection. Additionally, cross-country comparative studies may provide valuable insights into best regulatory practices that can further strengthen the role of Sharia P2P Lending as a sustainable financing instrument for MSMEs in Indonesia.

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