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Digital Financial Literacy and Digital Supervisory in Financial Services

(Basic Legal Protection For Consumer)

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***Abstract*—This research aims to study and improve the consumer protection relate to digital financial literacy of Indonesian consumers and digital supervision by government on financial service providers. Previous research related to the consumer protection in Indonesia has primarily explain about the consumer protection on certain financial technology such as peer to peer lending while the research didn't explain about digital financial literacy of Indonesian consumer and how to make the supervision on financial service provider more effective. Other research regarding digital financial literacy is based on economic perspective. This research is normative legal research that use primary legal material and secondary legal material as the source of data. The approaches used in this research are statutory approach and conceptual approach. The results of the study show that to improve the consumer protection relate to digital financial literacy of Indonesian consumers, besides socialization by the government regarding digital financial literacy to the public, it also requires the participation of all educational institutions in Indonesia to provide education to students about digital financial literacy. In addition, the results of the study also show that enforcing legal protection for consumer can be done effectively through government digital technology-based supervision on financial service providers.**

Keywords—digital financial literacy, digital supervisory, consumer protection

I. INTRODUCTION

Experienced significant growth despite the pandemic. In Indonesia, based on the statement of the Director of the Department of Communications of Bank Indonesia in a press release 11 June 2021, digital banking transactions have increased in volume by up to 60%[1]. In addition, the financial technology industry has also experienced an increase both in terms of the number of registered operators (from 5 providers in 2016 to 369 in 2020) as well as in terms of interest and use of financial technology in the community (with the total value of electronic money transactions in November 2020 reached more than IDR 19.34 trillion and new loan distribution through fintech lending in December 2020 reached IDR 74.41 trillion) [2].

The massive use of digital services in Indonesia is also driven by the high use of internet services. Based on data from Hootsuite and We Are Social as of January 2021, the number of internet users in Indonesia is 73.7% of the total population of 202.6 million. This number shows a higher number compared to the percentage of internet users in Southeast Asia, which is 69% of the total population [3].

Financial service industry in Indonesia consist of banking, capital market, insurance, pension funds, financing institutions, and other financial services declared to be under the supervision of Financial Services Authority (OJK) such as financial technology [4]. Thus, such financial services nowadays also conducted in online system. Based on Article 8 Law No. 8 Year 1999 concerning Consumer Protection, the business actor must meet or comply with the required standards and the provisions of the legislation otherwise a maximum imprisonment of 5 (five) years or a maximum fine of Rp. 2,000,000.00 (two billion rupiah) will be applied. However, the empirical fact that with POJK 77/2016 concerning peer to peer lending which only looks or regulates the registration and licensing processes and guidelines that are too general. Moreover for the settlement of the prohibitions based on POJK 77/2016, the provider only asked for administrative payment which clearly does not cause a deterrent effect [5].

The development of digital financial services besides bring advantage also brings a negative impact on consumers considering the relatively low level of digital financial literacy. Based on the results of the National Financial Literacy and Inclusion Survey conducted by the Financial Services Authority (OJK) in 2019, Indonesian people's financial literacy and financial inclusion levels reached 38.03% and 76.19%, respectively [6]. Moreover, the results of the latest OECD/INFE survey confirm that financial literacy levels are low (just under 61% of the maximum financial literacy score) across participating economies, including Indonesia [7]. Financial literacy which is still relatively low during relatively high financial inclusion has the potential to have a negative effect on consumer protection. This is evidenced by the increasing level of fraud in the financial services sector [8].

Financial literacy is defined as a combination of financial awareness, knowledge, skills, attitude and behaviours necessary to make sound financial decisions and ultimately achieve individual financial wellbeing [9]. Based on Indonesian regulation, financial literacy is knowledge, skills, and beliefs that influence attitudes and behaviour to improve the quality of decision making and financial management in order to achieve prosperity [10].

In terms of government supervision, until now the government is still implementing manual supervision and there are still many digital financial service providers that are not registered/licensed. Until now, supervision of the financial services sector such as banking, insurance, and other financial services sectors is still done manually.

Both issues become important to be answered as a form of contribution to solve the problem of consumer protection in the era of financial service digital based.

- What are the efforts needed to improve digital financial literacy of Indonesian consumers?
- What are the efforts needed to improve supervision by the government on digital financial service providers?

II. Research Method

This research is normative legal research. Legal materials used in this research are primary legal materials and secondary legal materials. The technique of collecting legal materials is carried out through literature studies. The approaches used in this research are statutory approach and conceptual approach. The statute approach is used to find out all the statutes/regulations in Indonesia regarding consumer protection, financial services, and the supervision of financial service providers. The conceptual approach is used to analyse and formulate the concept of efforts needed to improve digital financial literacy of Indonesian consumers and digital supervision in digital financial service providers.

III. Results and Discussion

A. *Efforts Needed to Improve Digital Financial Literacy of Indonesian Consumers*

Consumer Protection in Indonesia is regulated based on Law No. 8 of 1999 concerning Consumer Protection. Furthermore, the regulation regarding consumer protection in the financial services sector is regulated by the Financial Services Authority Regulation No. 1/POJK.07/2013 concerning Consumer Protection in Financial Services Sectors. The rights of consumers shall be: a. the right to comfort, security and safety in using goods and/or services; b. the right of choosing goods and/or services and obtaining the said goods and/or services in accordance with the exchange value and condition and guarantee pledged; c. the right to correct, clear and honest information about the condition and guarantee of the goods and/or services; d. the right that their opinions and complaints about goods and/or services used should be listened to; e. the right of obtaining advocacy, protection and an endeavour to properly settle disputes over consumers' protection [11].

Even though there are laws and regulations that regulate consumer rights, in practice there are still things that have a detrimental impact on consumers due to low levels of financial literacy. The development of the digital financial services industry besides providing convenience for consumers to do business also brings a negative impact in the form of rampant crime modes. Crime follows opportunity; virtually every advance has been accompanied by a corresponding niche to be exploited for criminal purposes [12]. In addition to the rise of cybercrime, from the consumer side, they do not yet have adequate financial literacy which results in the potential for losses for the consumer side being wide open.

The results of the 2019 national financial literacy and inclusion survey conducted by OJK showed that the average financial literacy index of the Indonesian people was 38.03% with financial inclusion of 76.19%. Survey data collection was carried out directly/face-to-face interviews assisted by a Computer Assisted Personal Interviewing system involving 12,773 respondents in 34 provinces in Indonesia. The respondents who were involved in this survey were 2.46% people aged 15-17 years, 13.53% aged 18-25 years old, 24.26% aged 26-35 years old, 37.73% aged 36-50 years old, and 22.02% those aged above 50 years [13]. Furthermore, based on Digital 2021 Indonesia data with respondents aged 15+, only 48.9% of Indonesians have accounts at financial institutions, 2.4% having credit cards, 3.1% having mobile money accounts, and 11.2% of the population making online purchases and /or paying bills online [3].

The level of financial literacy can be divided into four parts [14]:

- *Well literate*, namely having knowledge and confidence about financial service institutions and financial service products, including features, benefits and risks, rights and obligations related to financial products and services, as well as having skills in using financial products and services.
- *Sufficiently literate*, have knowledge and belief about financial service institutions and financial products and services, including features, benefits and risks, rights and obligations related to financial products and services.
- *Less literate*, only have knowledge of financial service institutions, financial products, and services.
- *Not literate*, do not have knowledge and confidence in financial service institutions and financial products and services, and do not have skills in using financial products and services.

With adequate digital literacy, it is hoped that everyone will be able to think critically and anticipate the possibility of suffering losses in conducting digital financial transactions.

The fact that fraud tactics are increasingly complex and it is greater financial knowledge rather than basic money management skills that provide the degree of sophistication necessary to detect fraud [15].

Efforts to improve financial literacy have so far been carried out by the Financial Services Authority through various activities such as providing education to the public directly and issuing regulations [16] which requires financial services business actors to provide education to the public.

Although socialization regarding financial literacy has been carried out by OJK in collaboration with other parties with various activities in several areas, there are still weaknesses, namely the inaccessibility of some areas in the country with the socialization program. As is known, Indonesia is a country with a very broad demographic level, so a more systematic effort is needed to even distribute literacy levels in various regions.

To establish financial literacy for the younger generation (considering the dominance of internet use by the younger generation), formal education about financial literacy for them is essential. Formal education regarding financial literacy can be applied through the insertion of financial literacy into the education curriculum at every level of education (from elementary school, junior high school, senior high school, to college). Thus, it is hoped that in the future a generation of critical economic players will be formed who can utilize digital and well literate financial services.

Based on previous research conducted by Yan Shen in China, improving, and lifting the financial literacy of citizens and familiarizing the internet usage could promote the use of digital financial products and achieve the goal of advancing financial inclusion. Financial literacy of residents provides financial knowledge and skills, which support consumers in making financial decisions. Although this study conducted in accounting and financing department, the result of this study also conclude that a certain level of financial literacy is required to use digital financial product and properly manage risks. It is also mention in this research that the policy maker needs to raise the financial literacy of residents as part of existing education systems to cultivate Chinese citizens ' financial awareness [17]. Another economic and finance-based research conducted by Maman Setiawan in Indonesia, suggests policymakers to consider DFL as an important knowledge to be given to the millennials. Because by having certain knowledge, the current saving and spending behaviour, as well as the future saving and spending behaviour can be controllable and support the health of the financial system [18].

The insertion of digital financial literacy into the learning curriculum at every level of education is also an implementation of the fulfilment of the right to education for consumers. Consumer education refers to the process of gaining knowledge and skills to manage consumer resources and taking steps to increase the competence of consumer decision making. Moreover, consumer education should be included in the school curriculum and Member States are expected to organize training programmes for educators to enable them to conduct education and information programmes [19]. Consumer education (including financial literacy) has also been carried out by the European Union. The EU has organized consumer education actions at various stages, such as the gradual inclusion of consumer education in primary and secondary school syllabuses [20].

B. Efforts Needed to Improve Supervision by the Government on Digital Financial Service Providers

In Indonesia, the institution that has the function of regulating and supervising the entire operating financial services industry is the OJK [21]. The supervision carried out by OJK can be carried out directly (on-site supervision) by visiting financial service institutions or carried out off-site. The need for on-site and off-site supervision is to see and directly monitor the performance of each financial service institution whether it is in accordance with and complies with the provisions issued by the OJK. Supervision carried out directly in the field to ensure that the soundness of a financial service institution can be monitored, its risk management is running well, and the interests of consumers are protected [22].

The supervision carried out by the OJK on financial service actors includes examination of market conduct. Market conduct inspection is an examination conducted thematically and directly on Financial Services Businesses in coordination with the supervisory work unit in charge of the banking sector, capital market, and non-bank financial industry. Market conduct examination is carried out by focusing on certain themes decided by the members of the Board of Commissioners in charge of Consumer Education and Protection. In its implementation, the market conduct examination will carry out a direct assessment of the implementation of consumer protection principles by business actors with the final result being recommendations for improvement to business actors (if a deficiency is found between OJK regulations and implementation by business actors) as outlined in the final audit report [22].

With the rapid pace of change in technology and global financial markets, the government should look to increase the number of automated activities, to improve operational efficiencies, generate new insights, improve decision-making, and reduce costs in data collection and reporting. The application of new technologies to help authorities to improve their supervisory capabilities – known as ‘SupTech’. Authorities need a well-defined and user-centric SupTech strategy that meets their unique objectives [23].

SupTech can bring advantage for supervisory agencies in increasing their supervision, transform clumsy processes into online workflows, equips government as supervisors with analytics tools, and protects the financial system from crashes and crises [24]. In conventional report system done by financial service provider nowadays, the report delivered to the government as supervisor done through annual report and monthly report. This kind of report will not reveal the riel time information related to financial service provider.

In Europe, the idea of the necessity of using supervisory technology in banking supervision is currently being piloted. This supervision-based technology is expected to become new supervisory capabilities more effective, besides that the automation of the more routine and repetitive tasks frees up the supervisors and enables them to focus on value-added activities that make use of their cognitive strengths [25].

In Indonesia, the supervision carried out by the OJK based on technology is still very limited. The form of Supt-Tech implementation that has been carried out by the OJK is a mini page on the OJK portal which is named the Electronic Gate for the Digital Financial Information System (Gesit) which was inaugurated in September 2019 [26]. Meanwhile, supervision in the other financial services sector is still dominated by manual supervision. From the banking aspect, based on the statement of Mr. Wimboh Santoso as Chairman of the OJK Board of Commissioner, there are currently 107 Commercial Banks and 1,506 Rural Banks (BPR) that the smaller number of Commercial Banks makes it easier for regulators to carry out supervision, but many BPRs in regions are not monitored on a day-to-day basis because the reports are not yet digital [27]. From the insurance aspect, based on the statement of Mr. Riswinandi as OJK Non-Bank Financial Industry Supervisory Board of Commissioner, the supervision of the insurance industry is lagging behind compared to the banking industry, and there are even many cases of insurance defaults to customers [28]. From the aspect of financial technology, although OJK always conducts socialization so that people use financial technology services from registered and licensed providers, the existence of illegal providers keeps popping up. In terms of financial technology lending alone, from 2018 to March 2020 there were 2406 illegal fintech lending entities handled by the Investment Alert Task Force [29].

In view of technological developments and the weaknesses of the supervisory system currently being implemented, OJK needs to immediately make changes to the supervisory system based on "Sup-Tech" digital supervision for each lfinancial services sector. In addition to preparing digital-based supervision technology, OJK also needs to prepare human resources capable of supporting the use of digital supervision in each financial services sector.

The results of the study show that enforcing legal protection for consumer can be done bottom up through financial literacy and top down through digital technology-based supervision. Through adequate financial literacy from the consumer side and digital based supervision of financial services provider by the Authority, it is expected to be two important sides in the implementation of consumer protection in financial sector. Consumers who have adequate financial literacy will use their knowledge to choose financial service institutions that comply the regulations. On the other hand, the financial service providers who can be monitored in real time by the Authority will also of course always maintain their business processes in accordance with the applicable regulations.

IV. Conclusion

Based on the research result, other law research rarely discussing about the right of education (including financial literacy) owned by consumers and only focus on the dispute settlement. This research concludes that to improve the consumer protection relate to digital financial literacy of Indonesian consumers, besides socialization by the government regarding digital financial literacy to the public, it also requires the participation of all formal educational institutions in Indonesia to provide education to students about digital financial literacy. Formal education regarding financial literacy can be applied through the insertion of financial literacy into the education curriculum at every level of education. In addition, the results of the study also show that enforcing legal protection for consumer can be done effectively through government digital technology-based supervision on financial service providers. This digital supervision is needed to replace the conventional supervision by the government. Of course, the implementation of digital supervision needs to be supported by certain regulations, technology, and preparing human resources.

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