



A Comparative Social-Legal Analysis: Fintech Lending Governance in Indonesia and Malaysia

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Abstract. The rapid expansion of fintech lending services in Southeast Asia has transformed access to credit, especially for underserved communities. However, this innovation also brings significant legal and social challenges, concerning consumer protection, data privacy, and abusive debt collection practices. This study provides a comparative socio-legal analysis of fintech lending governance in Indonesia and Malaysia, examining the interplay between legal frameworks and borrowers' lived realities. In Indonesia, regulatory oversight is primarily carried out by the Financial Services Authority (OJK), while in Malaysia, Bank Negara Malaysia (BNM) and the Ministry of Local Government Development (KPKT) are responsible for regulating digital lending activities. Although both countries share similar policy objectives, they reveal striking differences in institutional arrangements, enforcement mechanisms, and public responses. Drawing on a combination of normative legal analysis and empirical insights, the study highlights the gap between formal regulations and the socio-economic realities of digital borrowers. It argues that effective fintech lending governance must go beyond legal formalism and adopt a community-centred approach that emphasises fairness, transparency, and accessibility. The study recommends stronger inter-agency coordination, enhanced financial literacy initiatives, and regional cooperation to harmonise regulatory standards across the ASEAN region.

Keywords: Business Law, Consumer Protection, Digital Governance, Fintech Lending, Socio-Legal Analysis.

1 Introduction

The global financial sector has undergone a fundamental transformation with the emergence of financial technology (fintech). Among its various applications, fintech lending services have emerged as a crucial innovation reshaping access to credit and financial intermediation [1]. By leveraging digital platforms and algorithm-based credit scoring, fintech lending has lowered barriers to individuals and small businesses that traditionally struggled to obtain loans from conventional banks. This trend particularly appeared in developing countries, where the need for financial inclusion is acute. While fintech lending promises broader access to credit, it also presents new risks that require regulatory certainty [2].

In Southeast Asia, fintech lending services have experienced exponential growth over the past decade. Indonesia and Malaysia are two of the regions with the most dynamic markets. They reflect the potential benefits and inherent risks of this new financial ecosystem. For instance, increasing internet and mobile penetration, coupled with a large underbanked population, have accelerated the adoption of peer-to-peer

(P2P) platforms and digital lending [3]. These platforms are often praised for successfully bridging the credit gap, particularly for micro, small, and medium enterprises (MSMEs) and low-income households. However, their rapid expansion has also been accompanied by various governance challenges, ranging from regulatory loopholes to consumer exploitation.

One of the most pressing issues is consumer protection. Reports across the region indicate that many borrowers face unclear loan terms, high interest rates, and predatory lending practices. In Indonesia, abusive debt collection methods, including threats, public disclosure, and harassment, have been widely documented [4]. In Malaysia, despite tighter regulatory controls, the same concerns persist, particularly regarding borrower data privacy and the adequacy of enforcement mechanisms. These developments highlight the vulnerability of digital borrowers, who often lack financial literacy and understanding of complex loan agreements [5].

Indonesia and Malaysia's regulatory responses demonstrate both convergence and divergence. Indonesia centralises regulatory oversight through the Financial Services Authority (OJK), which focuses on licensing, compliance, and oversight of market behaviour [6]. Malaysia, on the other hand, adopts a dual regulatory model: Bank Negara Malaysia (BNM), which regulates financial stability and prudential standards, and the Ministry of Local Government Development (KPKT), which manages licensing and consumer protection. These institutional differences reflect not only different legal traditions but also varying policy approaches to balancing innovation with consumer protection [7].

Despite their differences, both jurisdictions face a common policy challenge: aligning legal frameworks with the lived realities of digital borrowers. In many cases, formal regulations remain disconnected from socioeconomic conditions on the ground. For example, Indonesian borrowers are often from low-income families with limited financial literacy. The condition makes them vulnerable to exploitative practices even with the availability of regulatory protections. Similarly, in Malaysia, even with more comprehensive regulations, enforcement gaps and bureaucratic complexity sometimes limit their effectiveness in practice. These challenges highlight the importance of examining governance through a normative legal and a socio-legal perspective.

Literature on fintech lending in Southeast Asia emphasises regulatory design and comparative legal frameworks. While this work is valuable, it often overlooks the socio-economic dimensions that shape borrower experiences. The dominance of doctrinal legal analysis leaves a significant gap in understanding how digital lending is actually experienced by consumers, and the extent to which the law delivers on its promises of fairness and protection. Addressing this knowledge gap requires integrating legal analysis with empirical insights that capture the reality of borrowers' interactions with fintech platforms.

The socio-legal approach is highly relevant as it situates regulation within a broader social context. Rather than viewing law as an autonomous system, the socio-legal perspective examines how law is applied, contested, and experienced in everyday life. This approach enables a more nuanced understanding of regulatory

frameworks' effectiveness while also highlighting the tensions between formal rules and lived realities. By adopting this perspective, the study contributes not only to the legal scholarship on fintech governance but also to the broader discourse on digital inclusion and consumer protection in developing countries.

This comparative study of Indonesia and Malaysia is particularly timely, given ASEAN's growing efforts to harmonise digital financial regulatory frameworks. As cross-border digital lending platforms continue to expand, inconsistencies in national regulations risk creating regulatory arbitrage and exposing consumers to uneven levels of protection. Insights from Indonesia and Malaysia—two countries with different regulatory models yet facing similar socio-economic challenges—are therefore highly valuable in informing broader regional policy dialogue.

The significance of this research lies in its dual focus: examining the formal legal framework while also accounting for borrowers' socio-economic realities. By integrating these two dimensions, the study highlights the gap between regulation and practice, thereby identifying opportunities for more effective governance. The findings are expected to inform policymakers, regulators, and stakeholders in designing governance mechanisms that are not only legally sound but also socially responsive and equitable.

The primary aims are to analyze and compare the regulatory frameworks governing fintech lending in Indonesia and Malaysia, particularly the role of key institutions, licensing procedures, and enforcement mechanisms. Beyond the legal dimension, this study also examines the interaction between formal regulations and borrowers' realities, particularly in financial literacy, consumer protection, data privacy, and debt collection practices. By situating the legal framework within a broader social context, this study seeks to reveal the extent to which governance mechanisms effectively address the vulnerabilities of digital borrowers. Ultimately, the research aims to develop policy recommendations that promote a community-centred model of fintech lending governance, emphasising fairness, transparency, and accessibility. These findings are expected to provide insights not only for Indonesia and Malaysia but also for the wider ASEAN region, where harmonising digital financial regulation remains an important agenda.

2 Methods

The study employs a comparative socio-legal approach, combining normative legal analysis with empirical insights. The normative aspect examines the regulatory framework governing fintech lending in Indonesia and Malaysia, focusing on laws, policy guidelines, and institutional mandates issued by the Financial Services Authority (OJK), Bank Negara Malaysia (BNM), and the Ministry of Regional Government Development (KPKT).

The socio-legal dimension complements the analysis by incorporating secondary data, such as policy reports, academic studies, and consumer surveys, that reflect borrowers' actual experiences—financial literacy, data privacy, and debt collection practices. By systematically comparing institutional arrangements, enforcement mechanisms, and socio-economic outcomes, the study applies thematic analysis to

highlight both convergences and divergences in governance, and to identify relevant lessons for regulatory harmonisation efforts in the ASEAN region.

3 Findings

Fintech lending regulatory governance in Indonesia has undergone significant developments since the issuance of OJK Regulation No. 77/POJK.01/2016, Information Technology-Based Lending Services. The Financial Services Authority (OJK) serves as the primary regulator, responsible for licensing, supervision, and enforcement of compliance [8]. Since then, Indonesia has seen a rapid expansion of peer-to-peer lending platforms, many of which target underbanked populations. However, this massive market growth has outpaced regulatory capacity, creating loopholes that unlicensed operators exploit [9]. Various platforms continue to operate outside the formal framework, offering loans under predatory terms with limited accountability. It illustrates not only the dynamics of Indonesia's fintech ecosystem but also the weaknesses of its enforcement apparatus.

In terms of institutional design, Indonesia relies on a single-agency model, with the Financial Services Authority (OJK) as the primary regulator. Centralisation provides clarity of authority, but burdens a single institution with limited resources. The OJK has attempted to address enforcement challenges by collaborating with the Ministry of Communication and Information Technology (Kominfo) and law enforcement agencies to block illegal platforms. Nonetheless, these reactive measures have not resolved the problem because illegal operators continue to reappear under different names or domains. The existence of these unauthorised entities highlights the OJK's structural limitations in controlling the digital lending market and underscores the need for a more adaptive, technology-driven regulatory approach.

Consumer protection remains a key concern in Indonesia's digital lending sector. Borrowers frequently report unclear contract terms, excessive interest rates, and disproportionate late-payment penalties [10]. In some cases, platforms charge cumulative interest rates that far exceed the principal amount, creating a debt trap for low-income borrowers. Furthermore, abusive debt collection practices are a serious problem, with reports of harassment, intimidation, and public disclosure. Although the Financial Services Authority (OJK) has issued a circular prohibiting such practices, enforcement remains uneven across the sector. The gap between legal prohibitions and the real experiences highlights the limitations of formal regulation in shaping market behavior.

Data privacy issues in Indonesia were recently addressed through the 2022 Personal Data Protection Law. Previously, fintech borrowers faced significant risks of data misuse, with personal information often harvested and exploited by unregulated lenders. Borrowers reported that sensitive data was shared with third parties as a form of intimidation during debt collection [11]. While the new law represents an important step toward aligning Indonesia with international standards, its implementation is still underway and depends on institutional capacity. Enforcement remains a challenge, requiring specialised expertise and inter-agency coordination. Legacy data governance weaknesses continue to undermine borrower confidence in the system.

Financial literacy has also emerged as a structural factor shaping borrower vulnerability in Indonesia. Many borrowers, those from rural and low-income backgrounds, are unable to fully assess loan terms, interest rates, and repayment obligations. The limited knowledge makes them vulnerable to predatory practices and increases the risk of debt bondage. While the Financial Services Authority (OJK) has promoted financial literacy programs, these initiatives are fragmented and often fail to reach those most in need. Digital borrowers often access credit impulsively through mobile apps without fully considering the consequences, underscoring the urgency of more focused literacy campaigns. Closing the education gap remains central to improving consumer protection outcomes in fintech lending.

The socio-economic impact of fintech lending in Indonesia is ambivalent. On the one hand, digital lending provides crucial access to credit for micro and small businesses that struggle to obtain bank financing, thereby driving business growth, job creation, and broader financial inclusion. On the other hand, individual borrowers often experience repayment difficulties, which fuel a cycle of debt and exacerbate financial insecurity. The dual impact highlights the complexity of fintech lending as both an economic opportunity and a source of vulnerability, requiring a regulatory framework that not only facilitates innovation but also ensures responsible lending practices.

In Malaysia, fintech lending governance follows a more cautious, segmented approach. Unlike Indonesia's single-agency model, Malaysia relies on dual institutional oversight: Bank Negara Malaysia (BNM) regulates systemic financial stability, while the Ministry of Local Government Development (KPKT) oversees non-bank digital lenders [12]. The bifurcated structure creates a more restrictive environment for fintech operators, due to stringent licensing requirements and tiered oversight. Consequently, the number of licensed operators is relatively small compared to Indonesia. While this reduces the risk of illegal platform proliferation, it also slows the pace of financial innovation, demonstrating Malaysia's preference for stability and risk management over rapid expansion.

Law enforcement in Malaysia is characterised by strict licensing controls and close compliance monitoring. High entry barriers prevent unlicensed entities from entering the market, leading to fewer reports of illegal or fraudulent activity than in Indonesia. Regulatory authorities actively oversee lending practices, requiring operators to disclose interest rates, repayment terms, and dispute resolution mechanisms [13]. However, critics argue that the strict licensing framework limits competition and may inadvertently restrict access to credit for underserved populations. It reflects the trade-off in Malaysia's governance model between consumer protection and financial inclusion.

Consumer protection in Malaysia is relatively robust, with fewer cases of abusive debt collection or predatory lending structures. The licensing process requires adherence to ethical lending standards, and regulatory authorities have mechanisms to address complaints. However, challenges remain in ensuring full transparency in loan agreements, as some borrowers remain confused about effective interest rates and hidden fees [14]. Although Malaysia has better consumer protection, borrowers'

experiences show that regulation alone does not guarantee fairness without ongoing monitoring and education [15].

A comparison between Indonesia and Malaysia highlights the most striking differences in the institutional design of regulatory governance. Indonesia's centralized OJK provides clear lines of accountability but burdens enforcement capacity, while Malaysia's dual model provides more specialized oversight but carries the risk of bureaucratic inefficiency and regulatory overlap. The divergence demonstrates two competing governance philosophies: efficiency through concentration versus stability through segmentation, reflecting broader political and socioeconomic priorities.

The proliferation of illegal or unlicensed operators provides a second point of comparison. Indonesia has seen a dramatic expansion of unregulated platforms, despite repeated crackdowns. Malaysia, on the other hand, has successfully addressed the problem through high entry barriers and strict licensing controls. While it has reduced the number of fraudulent operators, it has also limited the number of legitimate platforms, potentially limiting innovation and access to credit. The trade-off between openness and restriction demonstrates how regulatory design directly shapes market dynamics.

Consumer protection is another area where the two jurisdictions differ significantly. Borrowers in Indonesia frequently report abusive debt collection, predatory interest rates, and opaque contract terms [16]. Despite the OJK's efforts to issue guidelines, implementation and monitoring remain inconsistent. In Malaysia, stricter licensing and compliance have mitigated many of these issues, resulting in fewer cases of borrower exploitation. However, transparency gaps remain, particularly the disclosure of effective interest rates and hidden fees. Thus, while Malaysia is better at consumer protection, both countries demonstrate that regulations must continue to be adapted to evolve lending practices.

Nevertheless, data privacy presents another contrast. In fact, Indonesia only adopted a comprehensive data protection law in 2022, leaving borrowers vulnerable to privacy breaches for years. Implementation of the law remains uncertain, raising questions about whether formal legal reforms will translate into effective protections. Malaysia, with a law in place since 2010, has a more stable legal foundation, although enforcement challenges remain. Overall, both countries demonstrate the importance of establishing a legal framework which is responsive to technological innovation.

Financial literacy is a common factor, but its levels vary. In Indonesia, the literacy gap is more pronounced among rural and low-income borrowers. Meanwhile, Malaysia is relatively better due to a long-term national strategy, but vulnerabilities remain among young and low-income groups. While both countries recognize the importance of financial literacy campaigns, the Indonesian case highlights the urgent need for a systematic and comprehensive program.

Socioeconomic outcomes also differ in scale and character. In Indonesia, fintech lending provides a vital source of credit for MSMEs, but it also fuels a cycle of debt for individual borrowers. Malaysia's more restrictive environment limits both the benefits and risks of digital lending. Malaysian borrowers experience more

predictable repayment structures, although access remains limited. In other words, Indonesia demonstrates the potential for fintech growth, albeit with significant risks, while Malaysia reflects a cautious approach that prioritises stability over rapid inclusion.

Public trust in fintech varies significantly. In Indonesia, repeated scandals and borrower abuse have undermined confidence in the sector. The Financial Services Authority (OJK)'s efforts to restore credibility through awareness campaigns and law enforcement have had limited success. In Malaysia, public trust is relatively stronger, supported by the perception of more reliable regulatory oversight, although skepticism toward new platforms remains. Comparative analysis shows that the legal framework influences not only regulatory outcomes but also social perceptions of digital finance.

The findings show that Indonesia and Malaysia pursue similar policy goals: promoting financial inclusion and protecting consumers, but their institutional arrangements and enforcement mechanisms result in different outcomes. Indonesia's open regulatory environment encourages innovation and inclusion, but also exposes borrowers to significant risk. Meanwhile, Malaysia's strict framework reduces exposure to fraud and exploitation but limits credit availability, particularly for underserved communities. The duality highlights that governance choices reflect a trade-off between innovation and protection.

The second implication is that regulatory formalism is not enough. Both countries demonstrate that formal rules do not automatically guarantee effective governance. In Indonesia, the existence of illegal platforms despite regulations highlights enforcement deficits. In Malaysia, despite strict licensing, transparency gaps persist, demonstrating that compliance does not guarantee fairness. Effective governance requires not only a legal framework but also mechanisms for implementation, monitoring, and adaptation to new risks.

Third, financial literacy has emerged as a determining factor for borrowers. Low literacy rates exacerbate vulnerability despite strong regulations. The Indonesian case illustrates the dangers of a lack of awareness, as borrowers often sign exploitative contracts without fully understanding them. Malaysia's relatively high literacy rate mitigates the risks, but not completely. Still, regulatory strategies must be complemented by systematic efforts to improve borrower education. Thus, informed decisions can be made in the digital lending market.

Fourth, data protection must be central to fintech governance. Indonesia's late adoption of laws left borrowers vulnerable to privacy breaches for years, undermining trust in the system. Early-adopting Malaysia demonstrates the benefits of proactive governance, though enforcement challenges remain. As digital lending evolves, the adequacy of data protection frameworks is crucial for consumer trust and the long-term sustainability of the market.

Thus, regional cooperation within ASEAN is highly needed. Both countries face cross-border challenges, including digital lending platforms and shared socio-economic vulnerabilities. Harmonising regulatory standards can reduce the risk of regulatory arbitrage, promote fair competition, and facilitate the exchange of best

practices. The cooperation will not only strengthen national systems but also build a more resilient digital financial ecosystem in Southeast Asia.

4 Discussion

Comparative findings from Indonesia and Malaysia demonstrate that the legal framework for fintech lending cannot be evaluated solely through regulatory design. A socio-legal perspective emphasizes the importance of understanding how formal regulations interact with broader social, economic, and institutional contexts. In Indonesia, the centralised authority of the Financial Services Authority (OJK) reflects legal formalism that emphasises rule-making and enforcement, but the presence of irregular actors demonstrates that the law often differs from reality [17]. In Malaysia, stricter licensing demonstrates a cautious approach to risk, yet borrowers still face transparency gaps and practical difficulties. The dynamic highlights that regulatory effectiveness depends on institutions and individuals' interaction, not just the provisions of legal texts.

A key theme that emerges is the importance of institutional capacity. In socio-legal studies, institutions are understood not only as guardians of rules but also as active agents in shaping how law is put into practice. The broad mandate of the OJK places significant strain on its resources, leading to enforcement gaps against illegal platforms.[18] In contrast, Malaysia's dual model divides regulatory responsibilities but risks coordination failures and bureaucratic overlap. Both cases demonstrate that institutional architecture determines regulatory effectiveness, but neither model fully balances efficiency, accountability, and adaptability.

The persistence of illegal fintech operators in Indonesia illustrates the dynamics of legal pluralism. Many borrowers rely on unregulated yet unlawful platforms, resulting in a parallel financial system operating beyond formal regulatory oversight [19]. In Malaysia, the prevalence of illegal operators is lower, yet informal credit channels persist, indicating that borrowers turn to non-state alternatives when the formal system is out of reach. The pattern suggests that fintech governance cannot be fully understood without considering the coexistence of formal law, informal practices, and socio-economic needs.

Consumer protection in both countries reflects the socio-legal tension between rights on paper and in practice. Indonesia has introduced anti-abusive billing guidelines, but inconsistent enforcement makes protections fragile. Malaysia's strict controls provide stronger protections, but hidden fees issues and opaque disclosures demonstrate that laws do not guarantee fairness [20]. The socio-legal perspective emphasises that rights become meaningful if they are integrated within accessible enforcement mechanisms and supported by a culture of compliance.

The data protection dimension demonstrates how socio-legal realities complicate regulatory outcomes. Indonesia's late adoption of the law left borrowers vulnerable for years, raising questions about the legislative response to technological change. Early-adopting Malaysia demonstrates the benefits of proactive governance, though enforcement challenges remain. Borrowers' trust in digital finance is mediated not only by legal language but also by their experiences with privacy protections.

Financial literacy becomes a socio-legal factor that determines the effectiveness of fintech lending regulations. The Indonesian case demonstrates inadequate knowledge and a lack of good regulation to protect against debt traps and exploitation. Even though Malaysia has a relatively higher literacy rate, risks remain, particularly for young and low-income groups. It supports the view that the law must be complemented by social and educational initiatives.

The socio-economic outcomes of fintech lending demonstrate how regulation impacts distributive justice. Platforms in Indonesia encourage entrepreneurial growth and access to capital for marginalized groups, but also reinforce the debt cycle. Meanwhile, Malaysia's restrictive regulations limit negative impacts but they also limit opportunities for financial inclusion.

Public trust reflects broader socio-legal legitimacy. In Indonesia, scandals and abuses undermine trust, demonstrating how enforcement failures undermine the credibility of legal institutions. Malaysia, however, is relatively more trusted, although scepticism toward newcomers remains. Legitimacy depends on the consistent application of rules and public perceptions of fairness. Without trust, the regulatory system loses authority because borrowers turn to informal or illegal alternatives [21].

The analysis also highlights transnational influences in shaping national legal frameworks. Both countries are situated within the ASEAN context, where cross-border platforms challenge the adequacy of domestic regulations. Socio-legal studies emphasize that globalization complicates the relationship between law and society by introducing overlapping norms. National regulations must be understood as part of a multi-layered governance system in which domestic, regional, and global rules interact. It emphasises the value of regional cooperation in harmonising standards and mitigating shared risks.

Thus, affirmation is essential, particularly the normative imperative, to adopt a human-centred approach to fintech governance. Formal rules are also necessary but not sufficient; effective regulation requires attention to borrower experiences, socio-economic realities, and structural inequalities. Comparative evidence suggests that governance should go beyond market control. They should provide equitable access, ensure fairness, and build trust. It aligns with socio-legal theory, which views law as a social institution to perform justice. Referring to the challenge in Indonesia, Malaysia, and ASEAN, regulatory systems that integrate legal formalism with socio-economic responses are required, thus, balancing innovation and protection can be achieved

5 Conclusion

The study examines fintech lending governance in Indonesia and Malaysia through a comparative socio-legal perspective. The analysis shows that even though both countries share similar goals, promoting financial inclusion and protecting consumers, their institutional designs and regulatory strategies differ significantly. Centralized oversight under the Financial Services Authority (OJK) in Indonesia has enabled rapid growth, but has created enforcement gaps and the persistence of illegal

operators. In contrast, Malaysia's dual-agency model ensures stronger protections but limits innovation and inclusion. These findings confirm that regulatory architecture fundamentally shapes market outcomes, borrower experiences, and the legitimacy of financial governance.

From a socio-legal perspective, the comparison highlights the persistent gap between formal law and practice. In both jurisdictions, formal regulations establish robust protections, yet borrowers remain with unclear loan terms, the risk of debt bondage, and vulnerability to abusive practices. Indonesia's experience highlights a limited institutional capacity and low financial literacy, which undermines the effectiveness of consumer protection. Malaysia's case demonstrates that strict licensing limits many risks but does not completely eliminate practical challenges. The distinction underscores the socio-legal insight that law must be a system of rules and a reality shaped by institutions, practices, and socio-economic conditions.

These findings also have important normative implications for policy and governance. Effective fintech lending regulation cannot rely solely on legal formalism but must integrate a human-centered approach that emphasizes fairness, transparency, and accessibility. It requires stronger inter-agency coordination, more focused financial literacy initiatives, and the development of adaptive enforcement mechanisms that keep pace with digital innovation. At the same time, regulators need to acknowledge the limits of relying solely on a national approach in an increasingly transnational market. Cross-border lending activities call for regional cooperation and the harmonization of standards, particularly within ASEAN, to prevent regulatory arbitrage and to enhance collective consumer protection.

The comparative experiences of Indonesia and Malaysia illustrate potential and risks of fintech lending as a tool for financial inclusion. Digital lending can expand opportunities for underserved populations, but it also poses significant risks if regulatory frameworks fail to translate formal protections into substantive equity. Socio-legal analysis emphasizes that governance must balance innovation with protection, inclusion with accountability, and efficiency with fairness. The future challenge for Southeast Asian regulators is to design systems that manage technological change and promote equitable and sustainable development.

Authors' Contributions. All authors contributed substantially to the conception and design, and to the analysis and interpretation of the data. The first author led the development of the research framework, conducted the socio-legal analysis, and prepared the initial draft of the manuscript. The second author contributed to the comparative analysis, particularly the Malaysian regulatory framework, and revised the manuscript for intellectual content. The third author assisted with data collection, policy review, and refinement of the legal argument. All authors reviewed the final version of the manuscript and agree for publication.

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