Strengthening Alternative Dispute Resolution Institutions (LAPS) in Capital Market Investor Protection: An Islamic Economic Law Perspective

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Abstract. The rapid growth of Indonesia's capital market, including its sharia segment, has not been matched by a dispute resolution architecture that is equally certain, accessible, and normatively coherent. This study examines how Alternative Dispute Resolution Institutions (LAPS) should be strengthened to protect capital market investors, and reads that question through the lens of Islamic economic law. Using normative legal research with statutory and conceptual approaches, the analysis combines Lawrence Friedman's theory of legal effectiveness with maqāṣid al-sharīʿah, particularly the objective of preserving property (ḥifẓ al-māl). The study finds three persistent weaknesses: legal substance that leaves the forum, procedure, and enforceability of decisions unclear—especially for sharia capital market disputes; a legal structure that remains fragmented between LAPS-SJK, BASYARNAS, the religious courts, and the general courts; and a legal culture marked by low literacy and limited trust in non-litigation channels. Islamic economic law offers more than a moral supplement: ṣulḥ and taḥkīm provide an indigenous procedural foundation, while the prohibitions of ribā, gharar, maysir, tadlīs, and najš give substantive content to the concepts of fairness and disclosure that capital market law already presupposes. The study proposes an integrated model: transforming DSN-MUI fatwas into binding regulatory norms, establishing a sharia panel with dually competent arbitrators within LAPS-SJK, mandating a ṣulḥ stage, clarifying the forum for enforcing sharia awards, and expanding sharia financial and legal literacy.

Keywords: Alternative Dispute Resolution; Investor Protection; Islamic Capital Market; Maqāṣid al-Sharīʿah; LAPS-SJK.

1 Introduction

The capital market can be understood as a means or platform that provides a mechanism for companies to obtain funding from the wider community. This funding is obtained through the sale of various financial instruments, such as shares, bonds, and other

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securities. Thus, the capital market plays an important role in supporting economic activities through the transfer of funds from parties with surplus funds to parties in need of capital.[1] Substantively, the main function of the capital market is to bring together parties in need of capital, namely issuers, with parties that have excess funds and want to invest them, namely investors.[2] In this market, investors can buy and sell various financial products, thereby creating liquidity, which is the ease of trading assets. Good liquidity allows investors more freedom to enter and exit an investment instrument according to their objectives and risk preferences.[3]

For companies, the existence of the capital market provides broad access to medium and long-term funding sources that are essential for business development. The funds obtained can be used for business expansion, increasing production capacity, improving performance, and financing various strategic projects. Thus, the capital market not only functions as a place for securities transactions, but also as a driver of growth and sustainability in the business world.

In principle, public companies that have undergone the process of issuance, IPO (*Initial Public Offering*), as public companies (*Go Public*) have significant and quite complex responsibilities to comply with various provisions set by the Financial Services Authority.

The reality on the ground is that the relationship between investors, companies, and other market participants does not always run smoothly. Disputes can arise, for example, due to incomplete information, investment losses, rule violations, or actions that harm investors. If these disputes are not resolved quickly and fairly, investor confidence in the market will decline, which in turn can hamper capital flows and the stability of the capital market itself. The resolution of capital market disputes is very important because the current conditions are developing quite rapidly. This is marked by an increase in the number of investors, as can be seen from the *Single Investor Identification* (SID) data from the Indonesian Central Securities Depository (KSEI) for the period 2020-2025, which has increased by 400%, as follows:

Table 1. Increase in the Number of Capital Market Investors in Indonesia (2020-2025)

No.	Number of Capital Market Investors	Year
1.	3.380.000	2020
2.	7.490.000	2021
3.	10.310.000	2022
4.	12.170.000	2023
5.	14.870.000	2024
6.	20.320.000	2025

Source : Indonesian Central Securities Depository (KSEI)

Legal protection does not only mean the existence of rules and sanctions, but also the availability of effective, swift, and fair dispute resolution mechanisms.[4] Dispute resolution is crucial because conflicts between investors and other parties in the capital market often cause significant losses if not handled in a timely manner. To overcome this, the presence of Alternative Dispute Resolution (ADR) is very important. ADR

offers a simpler, more efficient, faster, and non-litigious dispute resolution process compared to the court system.[5] Capital market dispute resolution through the courts is generally considered ineffective due to the formalistic nature of the judicial process, which is time-consuming and costly.[6] Empirical studies on corporate and business dispute resolution show that litigation processes are often lengthy, creating uncertainty for business actors and increasing transaction costs, both direct (legal fees, professional services) and indirect (lost business opportunities and damage to reputation). In the context of capital markets that demand certainty and speed in the enforcement of rights and obligations, the length of time it takes to resolve cases in court makes this mechanism incompatible with the needs of the modern business world, which is fast-moving and sensitive to information.

In addition, the resolution of capital market disputes through the courts also has the potential to distort company values and investor confidence. Research on public companies shows that involvement in prolonged litigation or arbitration cases can affect stakeholder perceptions and damage reputation, thereby impacting market valuations and companies' access to funding. [7] The technical complexity of capital market cases—involving financial instruments, specific regulations, and asymmetric information—is often difficult to process quickly and accurately within the framework of a general court system that is already burdened with other cases.8 These factors reinforce the view that, functionally, courts are not the most effective means of resolving capital market disputes compared to alternative mechanisms that are faster, more specialised, and confidential, such as arbitration or other ADRs. In the context of capital markets, APS plays a role in providing easier access to justice for investors, while helping to maintain market stability and credibility.

Investors can obtain settlement guarantees by using alternative dispute resolution mechanisms. Thus, they have a professional, independent, and efficient settlement channel. This helps reduce legal uncertainty and provides a sense of security for investors to continue participating in the capital market. Therefore, the existence of APS directly supports the legal protection of investors. Given these considerations, it is important to understand the role of ADR in protecting the legal rights of capital market investors. This discussion not only highlights the urgency of ADR mechanisms, but also emphasises their contribution to creating a healthy, fair and sustainable capital market.

Several studies have been conducted on investor protection in the capital market. A study conducted by Huang entitled *"The Effectiveness and Efficiency of Corporate Innovation under Strict Market Regulation: Based on China's New Securities Law"* explains that legal protection is very important for investors in the capital market because this environment is complex and high risk. [8] Although the capital market offers attractive opportunities for capital development, the absence of strong legal protection will make investors vulnerable to manipulation and abuse. This can lead to significant financial losses. Research conducted by Herliana and Irna Nurhayati entitled *"The Effectiveness of the Establishment of the Capital Market Arbitration Board (BAPMI) in Supporting Capital Market Activities"* explains that the low rate of capital market dispute resolution through arbitration at BAPMI is strongly suspected to be triggered by several obstacles. These obstacles include the limited authority of BAPMI

in handling certain types of disputes. In addition, problems also arise from the capital market participants, namely their ignorance of the existence of BAPMI and the tendency not to use BAPMI as a dispute resolution mechanism.[9]

Recent research conducted by Ema Rahmawati and Rai Mantili shows a shift in the role of the Indonesian Capital Market Arbitration Board (BAPMI) towards a more integrated Alternative Dispute Resolution Institution for the Financial Services Sector (LAPS-SJK) scheme. Previously, disputes in the capital market and banking were resolved through sectoral LAPS such as BAPMI for the capital market and LAPSPI for banking, in addition to BMAI (Indonesian Insurance Mediation and Arbitration Agency), BMDP (Pension Fund Mediation Agency), BAMPPI (Indonesian Guarantee and Financing Mediation and Arbitration Agency), and BMPPI (Venture Capital and Financing Mediation and Arbitration Agency Indonesia) for other sectors. [10] These sectoral LAPS are recognised by the OJK based on POJK No. 1/POJK.07/2014 as non-litigation forums that provide mediation, adjudication, and arbitration services with the principles of accessibility, independence, fairness, efficiency, and effectiveness.[11] However, with the issuance of POJK No. 61/POJK.07/2020, the OJK established LAPS-SJK as a single institution authorised to resolve disputes between financial service providers and consumers in all financial service sectors, explicitly replacing the functions of the six previous LAPS, including BAPMI.

This institutional shift becomes even more pressing when the sharia segment of the capital market is taken into account. Sharia shares, sukuk, and sharia mutual funds have grown into a significant part of the national market, yet the legal instruments governing them—the Capital Market Law, DSN-MUI fatwas, and OJK regulations—say almost nothing about how disputes over sharia compliance are to be resolved. Existing studies describe this condition as a normative vacuum (leemten in het recht) that leaves investors uncertain about the forum, the applicable law, and the enforceability of any outcome.[12] The problem is not merely technical. When a Muslim investor suspects that a security marketed as sharia compliant has in fact been traded through mechanisms containing gharar or manipulation, the loss suffered is at once economic and religious, and the ordinary consumer protection framework is not designed to answer the second dimension.[13]

Reading the strengthening of LAPS through Islamic economic law is therefore not an ornamental addition but a methodological necessity. Islamic economic law has long recognised amicable settlement (ṣulḥ) and arbitration (taḥkīm) as the preferred means of settling commercial disputes, and it supplies substantive standards—the prohibition of ribā, gharar, maysir, tadlīs, and najš—that overlap remarkably with modern rules against misleading disclosure, market manipulation, and insider trading.[14] Indonesian positive law has also settled the forum question in principle: after the Constitutional Court annulled the choice-of-forum clause in the Elucidation of Article 55(2) of the Sharia Banking Law, disputes over sharia economic activities fall within the absolute competence of the religious courts unless the parties have validly agreed to arbitration.[15] What remains unresolved is how that principle interacts with the single-institution LAPS-SJK scheme in the capital market. This article addresses that gap by combining Friedman's theory of legal effectiveness with a maqāṣid al-sharīʿah

analysis, and by proposing an ADR design that is both effective and sharia compliant.[16]

This research aims to find the ideal formulation for an effective and efficient Alternative Dispute Resolution Institution to provide investor protection using the legal effectiveness theory approach proposed by Lawrence Friedman. Therefore, referring to previous studies, it can be concluded that legal protection for investors in the capital market does not only depend on strong regulations, but also on the existence of an effective and efficient dispute resolution mechanism (ADR). Therefore, strengthening the ADR institution is necessary to provide optimal legal protection for capital market investors.

2 Method

2.1 Type and Approach of the Research

This study is normative legal research, also known as doctrinal legal research, which places written legal norms at the centre of the analysis. [12] The choice of method follows from the character of the problem examined. The question addressed here is not how frequently investors litigate, but whether the legal framework governing alternative dispute resolution in the capital market is internally coherent, complete, and capable of delivering the protection that it promises. The study therefore examines how the law ought to regulate (law in books) the effectiveness and the legality of ADR as the principal instrument for guaranteeing certainty and protection for investors. [17], [18]

Four approaches are combined. First, the statute approach is used to examine the Capital Market Law, the Arbitration and Alternative Dispute Resolution Law, the Religious Courts Law, the Financial Sector Development and Strengthening Law, and the implementing regulations of the Financial Services Authority (OJK) that govern LAPS-SJK. Second, the conceptual approach draws on the theory of legal protection and on the legal system theory of Lawrence M. Friedman, which distinguishes legal substance, legal structure, and legal culture, and which is used here to organise the assessment of effectiveness. Third, the case approach is used to read Constitutional Court Decision No. 93/PUU-X/2012 and Supreme Court Regulation No. 14 of 2016, both of which determine the competent forum for sharia economic disputes. Fourth, the Islamic economic law approach evaluates the same material through maqāṣid al-sharīʿah, and in particular through the objective of protecting property (ḥifẓ al-māl).

2.2 Sources of Legal Materials and Field Data

Three categories of legal material are used. Primary legal materials consist of statutes and regulations, namely Law No. 8 of 1995 on the Capital Market, Law No. 30 of 1999 on Arbitration and Alternative Dispute Resolution, Law No. 3 of 2006 on the Religious Courts, Law No. 4 of 2023 on the Development and Strengthening of the Financial Sector, OJK Regulation No. 61/POJK.07/2020 on Alternative Dispute Resolution

Institutions in the Financial Services Sector, Supreme Court Regulation No. 14 of 2016, Constitutional Court Decision No. 93/PUU-X/2012, and the relevant fatwas of the National Sharia Board of the Indonesian Ulema Council. Secondary legal materials consist of peer-reviewed journal articles, monographs, and research reports on investor protection, alternative dispute resolution, and Islamic economic law. Tertiary materials consist of legal dictionaries and encyclopaedias used to clarify terminology.

In addition to these legal materials, the study uses secondary field data in the form of official caseload statistics published by the institutions that actually receive capital market and sharia economic disputes. These are the annual reports and semester press releases of LAPS-SJK for the period 2021–2025 [19], [20]; the periodic statements of the Board of Commissioners of the OJK [21]; the Annual Report of the Supreme Court of the Republic of Indonesia for 2024 [22]; the first-instance case data of the Directorate General of Religious Judicature (Badilag) [23]; and the Single Investor Identification statistics published by the Indonesian Central Securities Depository (KSEI) [24]. These data are used not to test a hypothesis statistically, but to show how the norms under review actually operate in practice.

Two limitations of the data should be stated at the outset. First, LAPS-SJK does not publish absolute annual figures for the capital market segment for 2021, 2022, and 2025. Where such a figure is unavailable it is reported as not published separately, and the figure for 2025 is an estimate derived from the published sectoral share for the second semester of that year. Second, national judicial statistics record sharia economic cases as a single category and do not disaggregate sharia capital market disputes. The absence of such cases in the tables therefore means that none can be identified in published national statistics, not that none has ever been filed. Neither limitation affects the direction of the findings, because the argument rests on orders of magnitude rather than on precise counts.

2.3 Techniques of Collection and Analysis

Legal materials and field data were collected through library research and documentary study. Statutes and regulations were traced through official gazettes and the databases of the issuing institutions, journal literature was collected from indexed scientific databases, and the caseload statistics were taken directly from the official publications and data portals of LAPS-SJK, the OJK, the Supreme Court, Badilag, and KSEI. The data were then tabulated by year so that the trend across the period 2021–2025 could be read consistently.

The analysis is qualitative and prescriptive. The legal materials are first examined to establish what the norms provide, after which the three elements of the Friedman framework are applied in turn in order to identify where the weakness of the existing arrangement lies. The tabulated caseload data are then read against that doctrinal analysis, so that each element of the framework can be confronted with the recorded practice of the two available forums. The result of this confrontation is finally evaluated through maqāṣid al-sharīʿah in order to formulate the ideal design of alternative dispute resolution for the capital market. The field data supporting this analysis are presented systematically in Section 3.3.4.

3 Result and Discussion

3.1 Legal Protection for Investors in the Capital Market through Alternative Dispute Resolution Institutions

The legal protection provided by a country can basically be divided into two main complementary categories, namely preventive protection and punitive protection. Preventive protection focuses on efforts to prevent legal violations from occurring early on through the creation of clear, firm, and easily understandable rules for all legal subjects. In this context, the state formulates legislation, policies, guidelines, and standards of conduct that regulate various aspects of social, political, and economic life, so that every action taken by citizens and business actors has clear boundaries between what is permitted and what is prohibited. 16 In addition to the formulation of written norms, the preventive function is also carried out through education, legal socialisation, increasing public legal awareness, and effective supervision by relevant institutions. With strong preventive protection in place, the potential for disputes, abuse of authority, corrupt practices, and other unlawful acts can be minimised, as the parties involved are aware of the legal consequences of their actions.[25]

Meanwhile, repressive legal protection comes into play when a violation of the law has already occurred, requiring the state to provide a law enforcement mechanism that is firm, fair and accountable. This protection is realised through the imposition of sanctions or penalties, whether criminal, civil or administrative, on offenders in accordance with the level of fault and the impact caused. 18Enforcement is not only intended to punish offenders, but also has a restorative function for victims and a general prevention function for the wider community so that they do not imitate the same behaviour. [26]This is where the role of law enforcement agencies—such as the police, prosecutors, courts, and supervisory agencies—becomes very important, because their quality, integrity, and independence determine how effectively the legal protection system can function. Thus, the two pillars of legal protection, namely prevention and enforcement, are the main foundations for maintaining law and order, protecting individual rights and the public interest, and preventing violations in various social, economic and political activities on an ongoing basis.

Legal protection is most clearly evident in the existence of official institutions tasked with enforcing the law, including the courts and the police, as well as bodies that provide avenues for resolving issues outside of court.[27] This is in line with Soedjono Dirdjosisworo's view that one of the most concrete indicators of the existence of law in society is the presence of institutions that function to enforce and maintain the law itself. Legal protection is also closely related to the goal of justice. According to Soediman Kartohadiprodjo, the essence of the existence of law is to achieve justice. Thus, legal protection mechanisms can be understood as a means of realising the values of justice, including in modern economic fields such as capital market activities that demand transparency and trust. [28]

In the context of the capital market, law enforcement cannot be separated from regulations concerning corporate law, particularly limited liability companies. [29]This is because the parties involved in the capital market, such as issuers, investors, and

capital market supporting institutions, are mostly limited liability companies. Therefore, provisions concerning The structure, authority, responsibilities, and principles of limited liability company governance play an important role in providing certainty and legal protection for all capital market participants. These regulations also ensure that capital market activities are conducted in a fair, transparent, and accountable manner.

According to Article 4 of the Capital Market Law (Law No. 8 of 1995), the main objective of the development, regulation, and supervision of the capital market carried out by Bapepam is to ensure that capital market activities run in an orderly, fair, and efficient manner, as well as to protect the interests of investors and the general public. Within the framework of this Law, full authority to regulate and supervise the capital market sector is held by Bapepam-LK (Capital Market and Financial Institution Supervisory Agency). As Bapepam-LK is under the authority of and responsible to the Minister of Finance, its main task is to provide legal protection in the capital market, both through preventive and repressive measures. [30]

Within the framework of the Capital Market Law, Bapepam-LK served as an institution that restored public confidence in the financial markets following the monetary crisis that hit a number of Asian countries. The crisis highlighted the urgent need for a strong supervisory body, which was one of the reasons for the establishment of the Financial Services Authority (OJK) as a more independent supervisor of the financial services sector. To protect investors, Bapepam-LK stipulates that every issuer wishing to conduct a public offering must provide investors with the opportunity to read the complete securities prospectus both before and at the time of placing an order. Prospectuses play an important role as a source of preliminary information that enables investors to assess whether to purchase a security. Therefore, Bapepam-LK is tasked with assessing the completeness and clarity of issuers' documents before granting a Public Offering permit, as an implementation of the principle of information disclosure in the capital market. [31]

As a preventive measure, Bapepam-LK has established rules stipulating that prospectuses may not contain misleading information or false statements regarding Material Facts. In addition, prospectuses are prohibited from presenting information that manipulates or obscures the advantages and disadvantages of the securities being offered. In fact, Bapepam-LK has established prospectus preparation standards as technical guidelines for issuers. Other preventive protections are implemented at the licensing stage, when Bapepam-LK grants licences to Self-Regulatory Organisations (SROs), mutual funds, securities companies, and supporting professions to operate in the capital market. [32]

In addition to preventive measures, Bapepam-LK has repressive powers in the form of inspections and investigations as part of its supervisory function. Inspections may be conducted on any party suspected of committing, ordering, assisting, or attempting to commit violations of the Capital Market Law or its implementing regulations. During the inspection process, Bapepam-LK has the authority to request information and confirmation from relevant parties;require parties suspected of violating to perform or cease certain actions; examine or copy documents, records, and books from suspected parties and other relevant parties; and set conditions or grant certain permits as a

measure to resolve the losses incurred. If Bapepam-LK assesses that a violation has caused losses to the capital market industry or threatens the rights of investors, an investigation will be initiated and carried out by investigating officers who are civil servants within Bapepam-LK.

The entire examination and investigation process carried out by the authorities serves as a means to strengthen legal certainty and protection for investors. In the area of repressive protection (enforcement), the Capital Market Law (UUPM) gives Bapepam-LK the authority to impose various administrative sanctions, ranging from warnings and fines to more severe sanctions such as restrictions, freezes, or revocation of licences and cancellation of registrations. In addition to administrative sanctions, the UUPM also regulates criminal sanctions for those who commit violations and crimes in the capital market. This emphasises that legal protection in the capital market involves strict supervision, transparent regulations, and the ability to take firm action against violations, all of which aim to maintain public trust and market integrity.[33]

Legal protection in the capital market plays a strategic role because the capital market is a sector that is highly sensitive to issues of trust. Investors, both individuals and institutions, need assurance that every transaction is conducted fairly, transparently, and free from manipulation. [34] Without strong legal protection, the capital market can experience instability due to fraudulent behaviour such as insider trading, price manipulation, fraud, or the provision of misleading information. Therefore, the state intervenes through capital market regulations and the existence of authorities such as the Financial Services Authority (OJK) to ensure that all capital market activities are conducted within the legal framework. [35]

This legal protection is understood as an important instrument for ensuring legal certainty, which in turn encourages increased investment flows. The theory of law and finance developed by La Porta and colleagues states that countries that provide strong protection for investors tend to have more advanced capital markets and higher economic growth rates, thus confirming that legal protection is not only related to aspects of justice, but also forms the foundation for national economic stability and development. [36] In this context, legal protection is closely related to the application of *good corporate governance* principles to issuers as limited liability companies, which are normatively required to internalise the principles of transparency, accountability, responsibility, independence, and fairness in all of their business activities.[26, p. 9]

Neglecting these principles has the potential to cause losses to investors, particularly minority shareholders, and on a broader scale can erode public confidence and threaten the integrity and credibility of the capital market as a whole. Therefore, the regulations concerning limited liability companies, as formulated by in Law on Limited Liability Companies (UUPT) along withits implementing regulations, play a central role as the legal basis for building sound corporate governance, preventing opportunistic management practices, and creating a stable, transparent, and competitive capital market ecosystem that is capable of protecting the interests of investors while promoting sustainable economic growth.[37], [38]

The existence of dispute resolution mechanisms, both litigious and non-litigious, such as through alternative dispute resolution in the Indonesian Capital Market (APS-

PM), provides a way for investors and other market participants to obtain justice quickly.

Alternative Dispute Resolution Institutions (LAPS) in the financial services sector are facilities provided to handle and resolve consumer disputes when settlement through financial services institutions (LJK) fails to reach an agreement. LAPS acts as an official mechanism that is fair, efficient, and relatively quick compared to court litigation. Disputes submitted are generally related to breaches of agreements made between consumers and LJK. Before a complaint is submitted to LAPS, the dispute must first be resolved by the LJK. If no agreement is reached, the resolution can be continued through the court system or through non-litigation channels via LAPS.

LAPS serves as an alternative means of dispute resolution between consumers and LJK, making the process faster, more efficient, and reducing the burden on the courts. This institution has the authority to provide consumer protection through education, information provision, complaint reception, and dispute resolution facilitation. Education is provided to increase consumers' capacity to understand their rights, obligations, and ability to develop their businesses. Information is provided on an ongoing basis so that consumers understand the products or services they receive. In the event of dissatisfaction or breach of contract, LAPS facilitates resolution so that disputes are settled fairly.[39]

In dispute resolution practice, if mediation facilitated by LAPS does not result in an agreement, the parties may proceed to arbitration or adjudication. In arbitration and adjudication, an arbitrator or adjudicator is appointed to examine the case and issue a final decision on the dispute. LAPS operates based on the principles of accessibility, independence, fairness, efficiency, and effectiveness of dispute resolution so that consumers from various backgrounds remain protected. The existence of LAPS is becoming increasingly important with the development of financial services, including fintech, digital financing, insurance, and other complex financial products. This mechanism allows disputes arising from complex transactions to be resolved without having to go through the time-consuming and costly general court system. LAPS acts as a special instrument that accommodates the unique characteristics of the financial services sector.

In addition, LAPS works complementarily with the supervisory function of the Financial Services Authority (OJK), which has four main powers: *the power to* license, *the power to regulate*, *the power to supervise*, and *the power to impose* sanctions. The licensing authority ensures that banks or other financial services institutions meet the requirements of morality, integrity, and sufficient capital. The regulatory authority governs aspects of business activities, including liquidity, solvency, types of business, and risk management. The supervisory authority is exercised through indirect methods (*off-site supervision*) via periodic reports and direct methods (*on-site examination*) to ensure regulatory compliance and prevent harmful practices. The sanctioning authority is used to take action against institutions that violate regulations, while encouraging compliance and the application of sound banking principles.[40]

The synergy between LAPS and OJK creates holistic consumer protection. LAPS handles disputes at the micro level, while OJK maintains macro-level institutional compliance, thereby maintaining public confidence in the financial sector. In addition

to providing a fast dispute resolution channel, LAPS also helps improve consumer literacy through education and the provision of ongoing information. The existence of mediators or arbitrators which is independent, ensures that decisions are fair and transparent, and provides mutually beneficial solutions (*win-win solutions*).[16]

With this mechanism, LAPS not only serves to protect consumer rights, but also plays an important role in maintaining the stability and integrity of the financial services system. LAPS' success in handling disputes, educating the public, and facilitating communication between consumers and financial services institutions has helped strengthen public confidence in the financial industry. This ultimately encourages healthier, more transparent, and more responsible business practices.

In the capital market, the Alternative Dispute Resolution (APS) institution serves as a means to handle and resolve disputes between investors, issuers, and other capital market supporting institutions. APS has the authority to facilitate dispute resolution through various mechanisms, including mediation, arbitration, and adjudication, in accordance with the agreement of the disputing parties. Mediation aims to achieve a mutually beneficial solution (*win-win solution*), while arbitration and adjudication are carried out by independent arbitrators or adjudicators who have the authority to issue binding decisions. This mechanism allows for faster and more transparent dispute resolution and reduces the risk of losses for both investors and issuers.[41]

Mediation is a form of Alternative Dispute Resolution, in which the third party requested to assist is passive and has no authority to give advice, let alone determine the outcome of the dispute. [42] Mediation is conducted by an appointed official institution, such as the Indonesian Capital Market Arbitration Board (BAPMI) or a mediation institution recognised by the Financial Services Authority (OJK). The mediator facilitates dialogue between the parties to reach a voluntary and fair agreement.

Arbitration is a form of alternative dispute resolution involving one or more "private judges" called arbitrators to render a decision. In this process, the arbitrator acts very actively, much like a judge. Both a single arbitrator and an arbitration panel have an obligation to resolve the dispute submitted to them professionally, objectively, and based on an agreement that has been approved by the parties and the arbitrator themselves. [43]

Arbitration is conducted by a legally recognised independent arbitration body, such as BAPMI. The arbitrator's decision is *binding* on the parties. Arbitration has more formal procedures than mediation, but is still faster than ordinary court proceedings. This form is suitable for disputes that require a quick and clear final decision.

Conciliation is an Alternative Dispute Resolution process involving one or more third parties, where the third party is someone who possess professional expertise and proven competence.[44] In this process, the conciliator plays an important role because he or she is obliged to provide an opinion on the subject matter of the dispute, offer various alternatives for resolution, explain the best way to resolve the dispute, and explain the advantages, disadvantages and legal consequences for the parties. Although the conciliator has the authority to express their opinion objectively and impartially, they still do not have the right to make decisions on the dispute on behalf of the parties.

The existence of the APS institution in the capital market plays an important role in maintaining investor confidence, increasing transparency, and ensuring fair capital market practices. The synergy between APS and OJK creates comprehensive consumer protection, APS handles disputes at the micro level, while OJK supervises institutional compliance at the macro level. This not only protects the rights of investors but also maintains the stability, integrity, and credibility of the Indonesian capital market.

In addition, APS also has an important educational function. The mediation or arbitration process provides investors with an understanding of their rights, obligations and risks in investing. As a result, investors become more cautious and understand capital market legal procedures, which indirectly reduces the potential for future disputes. APS also encourages issuers and supporting institutions to be more compliant with regulations and maintain their reputation, thereby creating a healthy, transparent, and sustainable capital market ecosystem.

3.2 Investor Protection in the Sharia Capital Market: A Maqāṣid al-Sharīʿah Perspective

3.2.1 Protection of Property (Ḥifẓ al-Māl) as the Normative Basis of Investor Protection

In Islamic economic law, protecting the investor is not simply a matter of consumer policy; it is a direct expression of one of the five objectives of the sharīʿah, namely the preservation of property (ḥifẓ al-māl). The Qur'an forbids consuming the property of others through falsehood and permits commercial gain only where it rests on genuine mutual consent (QS al-Baqarah [2]: 188; QS al-Nisā' [4]: 29). Read into the capital market, these norms mean that a transaction is legitimate only when both parties possess sufficient information and freedom to consent, which is precisely the moral core of the disclosure principle that the Capital Market Law seeks to enforce through its prohibitions on fraud, manipulation, and insider trading.

Viewed from this angle, an effective dispute resolution mechanism is not an accessory to ḥifẓ al-māl but part of its realisation. A right without a remedy protects nothing. When an investor who has suffered loss cannot obtain redress quickly, affordably, and with a reasonable prospect of enforcement, the objective of preserving property is defeated in practice even though it is affirmed in doctrine. Islamic legal reasoning reaches the same conclusion as the law and economics literature, but by a different route: the maqāṣid place the burden on the state to provide a forum in which wrongfully taken property can actually be recovered.

3.2.2 Ṣulḥ, Taḥkīm, and Ḥisbah as the Classical Antecedents of ADR

Long before the modern vocabulary of alternative dispute resolution emerged, Islamic legal practice had developed ṣulḥ (amicable settlement), taḥkīm (arbitration), and the supervisory offices of the muḥtasib (ḥisbah) and wilāyat al-maẓālim. Ṣulḥ is favoured because it restores the relationship rather than merely allocating blame, and the classical maxim that reconciliation is permissible among Muslims unless it renders lawful what is forbidden or forbids what is lawful sets its outer limit. This limit is

important for capital market practice: a settlement may compromise on the amount of compensation, but it may not legitimise a transaction that is substantively unlawful, such as one built on manipulation or concealed information.

The ḥisbah tradition is equally instructive for the structure of supervision. The muḥtasib supervised markets to ensure honest weights, transparent prices, and the absence of najš—fictitious bidding intended to inflate prices—a function that finds its contemporary analogue in the Financial Services Authority's licensing, regulatory, supervisory, and sanctioning powers. The parallel is not merely rhetorical. It suggests that market supervision and dispute resolution belong to a single continuum of property protection, and that separating them institutionally, as Indonesian practice tends to do, weakens both.[40]

3.2.3 Sharia Compliance Risk as a Distinct Object of Dispute

The sharia capital market generates a category of dispute that conventional frameworks do not anticipate: disputes about compliance itself. DSN-MUI Fatwa No. 80/DSN-MUI/III/2011 lays down which trading mechanisms in the regular market may be regarded as consistent with sharia principles, prohibiting among others fictitious transactions, front running, and the misuse of asymmetric information.[45] When an investor alleges that those standards have been breached—for instance, that a security remained listed as sharia compliant despite a change in the issuer's financial ratios—the claim is not only about financial loss. It concerns the religious validity of the transaction, and its resolution requires a decision-maker competent in fiqh muʿāmalah as well as in securities practice.

Indonesian law recognises this competence in the judicial branch. Article 49 letter (i) of Law No. 3 of 2006 places sharia economic matters, expressly including sharia capital market and sharia securities activities, within the jurisdiction of the religious courts,[46] and Supreme Court Regulation No. 14 of 2016 provides a dedicated procedure for examining such cases.[47] The Constitutional Court removed the earlier ambiguity by invalidating the choice-of-forum explanation attached to Article 55(2) of the Sharia Banking Law. Outside the courts, the National Sharia Arbitration Board (BASYARNAS) has long acted as the arbitral forum for sharia economic disputes. The difficulty is that POJK No. 61/POJK.07/2020 channels consumer disputes in the financial services sector into a single institution, LAPS-SJK, without expressly regulating how that channel relates to BASYARNAS or to the absolute competence of the religious courts.[48] The result is a forum overlap that is invisible on paper but very real for an investor who must decide where to file.[49]

3.3 The Effectiveness of Alternative Dispute Resolution in Resolving Capital Market Disputes in Indonesia

In principle, Alternative Dispute Resolution Institutions (APS) play an important role in protecting investors by providing a faster and more informal mechanism for resolving disputes outside of court (non-litigation). APS, which is regulated in Law No. 30 of 1999 concerning Arbitration and Alternative Dispute Resolution and managed by

special institutions, helps resolve disputes arising from investment activities fairly and efficiently.

3.3.1 Legal Substance

The legal substance in the context of capital market APS according to Lawrence Friedman's framework mainly concerns the quality and completeness of the rules that form the basis for the operation of dispute resolution mechanisms, which include Law No. 8 of 1995 concerning Capital Markets (UUPM), Law No. 30 of 1999 concerning Arbitration and APS (Arbitration and APS Law), OJK regulations, and internal regulations of institutions such as LAPS- SJK. Meanwhile, in the Islamic capital market, existing regulations (UUPM, DSN-MUI Fatwa, Bapepam-LK/OJK regulations) do not clearly regulate the procedures for dispute resolution, both litigation and non-litigation, thus creating a legal vacuum and incomplete norms (leemten in het recht) that reduce legal certainty for the parties. [12]

The vagueness or lack of clarity in these regulations means that market participants have no clear reference point regarding the forum, procedures and legal consequences of choosing APS, resulting in a low level of confidence in using non-litigation channels and a decline in their effectiveness. APS in conventional capital markets, the legal substance is considered relatively more advanced because it explicitly regulates the scope of capital market arbitration and the mechanism for implementing its decisions. BAPMI, for example, was established to provide rapid dispute resolution by capital market experts; parties who explicitly choose BAPMI are subject to BAPMI procedural regulations, and BAPMI arbitration awards are final and binding and must be registered with the district court in order to be enforced. The Arbitration Law and APS also provide grounds for the annulment of arbitration decisions only on limited grounds (fraud, false/hidden documents), which strengthens the certainty of APS outcomes. [13] On the other hand, research on sukuk regulations and capital market customer protection emphasises that the substance of OJK regulations aims to guarantee investor security, provide compensation mechanisms, and regulate administrative and civil sanctions for violations in the capital market.However, if these protection norms and APS mechanisms are not clearly integrated into the capital market framework (for example, if they do not explicitly direct certain disputes to LAPS/BAPMI), then according to Friedman, the substance of the law does not fully support the effectiveness of capital market dispute resolution, including APS. [50]

The sharia dimension sharpens this critique. Fatwas of the National Sharia Board are, formally speaking, not sources of positive law; they bind only after being transformed into OJK regulations or incorporated into contracts. Consequently, when a dispute turns on whether a trading mechanism complied with Fatwa No. 80/DSN-MUI/III/2011, an arbitrator or adjudicator operating within LAPS-SJK has no unambiguous instruction on the legal status of that fatwa as applicable law. Compilation instruments such as the Compilation of Sharia Economic Law are available to religious court judges but are not formally addressed to financial sector ADR bodies. The substance of the law thus offers Muslim investors a promise of sharia compliance at the marketing stage without providing the normative tools to vindicate that promise at the dispute stage. The field data presented in Section 3.3.4 confirm the practical cost of this

gap: over the five years from 2021 to 2025, not a single dispute expressly concerning sharia capital market compliance appears in the published caseload of either LAPS-SJK or the religious courts.

3.3.2 Legal Structure

According to Lawrence Friedman, legal structure relates to the institutions, apparatus and working mechanisms that enforce regulations. In the context of APS in the financial services and capital markets sector, this structure includes the OJK as the regulator or supervisor, LAPS in the financial services sector (including BAPMI for the capital market), as well as other institutions such as BPSK and the courts. Through POJK 1/POJK.07/2014, the OJK established six sectoral LAPS, such as BAPMI (capital markets), LAPSPI (banking), and BMAAI (insurance), each of which specifically handles disputes in their respective sectors and is required to work based on the principles of accessibility, independence, fairness, efficiency, and effectiveness. In terms of structure, this shows that there is a fairly clear APS "implementing mechanism": there are specialised institutions, procedures (mediation, adjudication, arbitration), and a relationship with the OJK as the supervisor and regulator.

However, recent studies show that overlapping or poorly coordinated structures reduce effectiveness. The overlapping authority between BPSK (established by the Consumer Protection Law) and LAPS (established by the OJK/POJK Law) causes confusion for consumers, including those involved in financing institutions and other financial services. In some cases, BPSK decisions related to financial institutions have been overturned by the Supreme Court because they were deemed to be outside its authority, as the BPSK focuses on resolving consumer disputes, which has almost the same authority as consumers from banking companies. [51] This ultimately causes problems in terms of legal certainty. On the other hand, a study of LAPSPI shows that structurally, this institution has mediators, adjudicators, and arbitrators who understand banking, but its decisions are generally in the form of amicable agreements without direct executory power, so that enforcement still requires the courts. [52] In Friedman's view, this type of legal structure is still "half-strong": the institution exists and is specialised, but coordination between institutions, boundaries of authority, and the enforceability of decisions do not yet fully support the effectiveness of APS in the financial services and capital markets sectors.[53]Furthermore, simpler regulations are needed, namely strengthening the executive power of alternative dispute resolution institutions so that they can be directly enforced, by giving LAPS the authority to execute decisions when the parties to the dispute do not comply with the agreement.

The structural problem is compounded in the sharia segment. LAPS-SJK does not maintain a dedicated sharia panel, nor is it required to involve a sharia supervisory board when the dispute concerns compliance with sharia principles. BASYARNAS, which possesses that expertise, sits outside the single-institution scheme established by POJK No. 61/POJK.07/2020, while the religious courts hold absolute competence over sharia economic disputes and are the natural forum for registering and enforcing sharia arbitral awards. Three institutions therefore hold fragments of a single authority: expertise resides in one, jurisdiction in another, and the consumer channel in a third. In Friedman’s terms this is a structure that exists but does not cohere, and incoherence at

the structural level is routinely experienced by investors as delay, forum shopping, and ultimately as a reason not to pursue the claim at all.[54] Section 3.3.4 quantifies this incoherence: the forum that holds the jurisdiction records no capital market cases, while the forum that receives the complaints records no sharia cases.

3.3.3 Legal Culture

Legal culture, according to Lawrence Friedman, essentially refers to the way people think, behave and act towards the law and dispute resolution institutions. In the context of financial services and capital markets, many consumers and business actors still tend to remain silent when they suffer losses, or resolve issues informally, for example through private negotiations, rather than using official legal channels, such as courts or alternative dispute resolution (ADR) institutions. [55] Civil disputes in the capital market are far fewer than the potential violations that exist, indicating that the courage, habit, and confidence to sue or use ADR mechanisms are still low. On the other hand, Indonesian society is actually familiar with a culture of deliberation and peace, as seen in the practice of resolving disputes through customary or family means, which prioritises harmony, shame, and social sanctions over winning or losing in court.

The problem is that the value of deliberation has not automatically translated into the use of modern ADR methods such as institutional mediation, arbitration or online dispute resolution. Research in the banking and financial services sector shows that the level of utilisation and knowledge of ADR institutions (LAPS-SJK, LAPSPI, BAPMI) is still limited; many consumers are unaware of the existence of these institutions, let alone their procedures. [56] In some forums, such as mediation, the parties are often uncooperative, fail to complete the necessary documentation, or consider the results of mediation to be "less important" than a court decision, making it difficult to implement agreements. A lack of trust in the neutrality of institutions and mediators, coupled with a culture of "reluctance to cause a fuss" or fear of dealing with the law, means that victims of violations in the financial and capital markets often choose to resign themselves to their fate. [54] In Friedman's view, this pattern of behaviour shows that even though rules and institutions are in place, a legal culture that is not supportive is a major obstacle to the effectiveness of APS. A good legal culture within society is very helpful in implementing established regulations, with compliance and obedience becoming determining factors in the running of a legal system that aims to achieve justice.

For Muslim investors, legal culture carries an additional layer that is too often overlooked. The preference for ṣulḥ is not only a social habit inherited from customary practice; it is a religiously commended way of settling disputes, and it constitutes genuine social capital for any ADR system that knows how to use it. The paradox is that this cultural readiness has not translated into the use of formal sharia ADR channels. Sharia financial literacy in Indonesia consistently lags behind sharia financial inclusion, and knowledge of BASYARNAS or of the religious courts' competence over sharia economic disputes is thinner still. Some investors also read patience in the face of loss as religious acceptance rather than as a waiver of an enforceable right. A strengthening agenda that ignores this cultural layer will produce well-designed institutions that nobody uses. The scale of this cultural problem is visible in the figures

set out in Section 3.3.4, where capital market complaints never rise above one per cent of the LAPS-SJK caseload even as the investor population grows by roughly four hundred per cent.

3.3.4 The Use of LAPS-SJK and the Religious Courts, 2021–2025

The three Friedman elements examined above can be tested against what actually happens in practice. This section sets out the recorded caseload of the two forums that Indonesian law makes available to a capital market investor: LAPS-SJK, which is the single alternative dispute resolution body for the financial services sector, and the religious courts, which hold absolute competence over sharia economic disputes. The data cover the five years from 2021, the year LAPS-SJK began operating, to 2025, and are taken from the annual reports and press releases of LAPS-SJK, OJK publications, the Annual Report of the Supreme Court and the case statistics of the Directorate General of Religious Judicature (Badilag).

Table 2. Complaints and Disputes Received by LAPS-SJK, All Sectors and Capital Market Segment (2021–2025)

Year	Total complaints (all financial sectors)	Annual growth	Capital market complaints	Share of total	Explanation
2021	1,348	first year of operation	not published separately	n.a.	LAPS-SJK began operating on 1 January 2021 under POJK No. 61/POJK.07/2020, replacing six sectoral bodies including BAPMI.
2022	1,801	+33.6%	not published separately	n.a.	Capital market complaints for 2021 to October 2023 totalled 64 cumulatively, an average of fewer than 25 per year.
2023	2,501	+38.9%	23	about 0.9%	Ranked last of the five reported sectors, far behind banking (1,170), fintech lending (577), multifinance (443) and insurance (260).
2024	2,688	+7.5%	6 (January–June)	below 1%	Again last of five in the first semester, behind banking (504), fintech (264), multifinance (170) and insurance (133).
2025	3,515	+76.0%	about 27 (estimated)	1.19%	Estimated from the published sectoral share for July–December 2025; in that semester 14.14% of complaints were settled by mediation and 0.06% by arbitration.
Total 2021 – 2025	11,849	–	fewer than 100	below 1%	Across the whole period capital market disputes never exceeded one per cent of the LAPS-SJK caseload.

Source: LAPS-SJK Annual Reports 2021–2025 and Press Release for the Second Semester of 2025, processed by the authors.

Table 2 shows a market that is growing quickly and a dispute forum that is barely used by it. The number of capital market investors in Indonesia rose by roughly four

hundred per cent between 2020 and 2025, as Table 1 sets out, yet the number of capital market complaints reaching LAPS-SJK stayed in the range of a few dozen per year and never reached one per cent of the institution's total caseload. A market of that size does not generate so few grievances. The more plausible reading is the one Friedman would give: investors either do not know that the forum exists, do not trust it, or do not believe that filing is worth the effort.

Table 3. First-Instance Sharia Economic Cases Received by the Religious Courts of Indonesia (2021–2025)

Year	Ordinary lawsuit (gugatan biasa)	Simple lawsuit (gugatan sederhana)	Total	Capital market / sharia securities cases	Explanation
2021	not published separately	303	n.a.	none recorded	PERMA No. 14 of 2016 provides a dedicated simple-lawsuit procedure for sharia economic disputes.
2022	not published separately	256	n.a.	none recorded	A decline of 15.5% in simple lawsuits compared with 2021.
2023	not published separately	295	n.a.	none recorded	The caseload is dominated by sharia banking and sharia financing contracts.
2024	270 (37.97%)	441 (62.03%)	711	none recorded	The highest figure in the period; 70.25% of simple sharia economic lawsuits were decided in under 25 days.
2025	284	not yet published	n.a.	none recorded	Ordinary lawsuits rose by 5.2% over 2024 and still outnumber disputes over grants and endowments.

Source: Supreme Court of the Republic of Indonesia, Annual Report 2024; Badilag, Subdirectorate of Statistics and Documentation, 2021–2025, processed by the authors.

Table 3 tells a parallel story on the judicial side. The religious courts do receive sharia economic cases, and the number is rising, but the cases that reach them come almost entirely from sharia banking and sharia financing. The column that matters most for this article is the one that stays empty: across five years, no case identifiable as a sharia capital market or sharia securities dispute appears in the national statistics. Article 49 letter (i) of Law No. 3 of 2006 expressly confers that competence, and Supreme Court Regulation No. 14 of 2016 supplies the procedure, yet the competence is simply not exercised.

Table 4. Comparison of the Two Forums in Capital Market and Sharia Capital Market Disputes (2021–2025)

Indicator	LAPS-SJK	Religious Courts (Pengadilan Agama)
Basis of competence	POJK No. 61/POJK.07/2020; Law No. 4 of 2023 on the Development and Strengthening of the Financial Sector	Article 49(i) of Law No. 3 of 2006; Constitutional Court Decision No. 93/PUU-X/2012; PERMA No. 14 of 2016

Scope of jurisdiction	Consumer disputes with financial services providers in all sectors, including the capital market	All sharia economic disputes, expressly including sharia capital market and sharia securities activities
Total caseload 2021–2025	11,849 complaints and disputes across all sectors	Roughly 1,500 to 2,000 first-instance sharia economic cases
Capital market caseload	Fewer than 100 in five years, below 1% of the total	No identifiable case in the published statistics
Sharia capital market caseload	No dedicated sharia panel; sharia disputes are not recorded as a separate category	Competence exists in law but is not exercised in practice
Procedures available	Mediation, adjudication, arbitration and binding opinion	Ordinary lawsuit, simple lawsuit, and enforcement of sharia arbitral awards
Outcome rate	14.14% settled by mediation and 0.06% by arbitration in the second semester of 2025	70.25% of simple lawsuits decided within 25 days in 2024
Main obstacle	Very low investor use; 23.70% of cases fail because the financial services provider refuses mediation	Very low filing rate and limited investor awareness of the forum

Source: compiled by the authors from LAPS-SJK, OJK, Supreme Court and Badilag data, 2021–2025.

Read together, the three tables yield three findings that map directly onto the Friedman elements analysed above. The first is a mismatch between market growth and dispute volume. The investor base expanded roughly fivefold while capital market complaints remained a rounding error in the LAPS-SJK caseload. This is a legal culture problem before it is anything else, and it confirms in numbers what Section 3.3.3 argued in principle.

The second finding is that the sharia segment is statistically invisible. Sharia shares, sukuk and sharia mutual funds form a substantial part of the national market, yet neither forum records a single dispute arising from them. LAPS-SJK does not classify its cases by sharia compliance at all, so a Muslim investor's complaint about gharar or manipulation disappears into the general consumer category, while the religious courts, which are equipped to decide exactly that question, never receive it. This is the structural incoherence described in Section 3.3.2 seen from the outside: expertise sits with BASYARNAS, jurisdiction with the religious courts, and the consumer channel with LAPS-SJK, and no single institution holds a complete authority.

The third finding concerns enforceability, and it is the most concrete. In the second semester of 2025, only 14.20 per cent of complaints received by LAPS-SJK were resolved through a genuine alternative dispute resolution mechanism, while 23.70 per cent failed for a single reason: the financial services provider refused to mediate. When the refusal rate exceeds the settlement rate, the absence of executory power in LAPS-SJK outcomes is no longer a theoretical weakness in the legal substance but an operative one. Read through Islamic economic law, this is a direct failure of ḥifẓ al-māl. A right that cannot be enforced protects no property, and the obligation to provide a forum in which wrongfully taken property can actually be recovered is left unmet.

These figures therefore do more than illustrate the argument. They show that the weaknesses identified doctrinally in the substance, structure and culture of the law are not hypothetical risks but measurable conditions, and they give the strengthening agenda proposed in the next section an empirical target rather than merely a normative one.

3.3.5 Mainstreaming Sharia Compliance into the Ideal ADR Design

The three Friedman-based strategies above remain incomplete unless they also answer the needs of the sharia capital market. At the level of legal substance, the most urgent step is to transform the operative content of DSN-MUI fatwas concerning securities trading into OJK regulations, so that sharia standards enter the dispute process as binding law rather than as persuasive opinion, and to state expressly in the LAPS-SJK regulatory framework that sharia principles constitute the applicable substantive law for disputes involving sharia securities. Clarity of this kind costs little and removes a large part of the uncertainty that currently discourages Muslim investors from filing claims.

At the structural level, LAPS-SJK should establish a sharia panel staffed by mediators, adjudicators, and arbitrators with dual competence in fiqh muʿāmalah and capital market practice, supported by a sharia supervisory board for questions of compliance, and built through a formal cooperation framework with BASYARNAS rather than in competition with it. The relationship with the religious courts must likewise be settled explicitly: sharia arbitral awards should be registered and enforced through the religious court, consistent with its absolute competence over sharia economic matters, so that the winning party is not sent from one registry to another. A memorandum of understanding among the Financial Services Authority, the Supreme Court, LAPS-SJK, and BASYARNAS would give this arrangement practical force well before any legislative amendment is possible.[55]

At the level of legal culture, sharia financial and legal literacy should be pursued through the channels that Muslim investors actually trust—Islamic boarding schools, mosque-based communities, halal investment forums, and sharia securities houses—with material that explains not only how to invest but also where to complain and what a ṣulḥ agreement legally means. Framing dispute resolution as part of ḥifẓ al-māl, that is, as a religious duty to protect entrusted wealth rather than as a quarrelsome act, is likely to be more persuasive than a purely procedural campaign. Taken together, these measures make the proposed model coherent on both registers: effective in Friedman's sense and legitimate in the sense demanded by Islamic economic law.

The above strengthening model aims to ensure that the APS becomes a strong and reliable mechanism for investors to resolve disputes easily and effectively, thereby achieving justice and legal certainty.

4 Conclusion

Alternative Dispute Resolution (ADR) institutions play a crucial role in protecting investors in Indonesia's capital market by offering dispute mechanisms that are faster, more flexible, confidential, and less costly than court litigation Through mediation, arbitration, and conciliation administered by bodies such as BAPMI and LAPS SJK under OJK supervision, investors gain access to final and binding decisions and more balanced bargaining positions vis à vis issuers and intermediaries. The study, using Lawrence Friedman's framework, shows that current ADR performance is constrained by regulatory gaps and overlaps, limited executory strength of awards, institutional

fragmentation, and low legal literacy and trust among investors, which together reduce effectiveness and utilization of ADR mechanisms. The authors propose strengthening ADR along three dimensions: (1) Substance of law: revise and align the Capital Market Law, Arbitration/ADR Law, OJK regulations, and LAPS SJK provisions so that the competent forums, procedures, and mechanisms for enforcing decisions are clearly defined; (2) Structure of law: strengthen the powers, professionalism, independence, coordination, and technological capabilities of ADR bodies, and improve their cooperation with OJK, self regulatory organizations, courts, and criminal justice authorities; (3) Legal culture: expand investor education, financial inclusion, and understanding of legal rights and available dispute resolution pathways in order to normalize and encourage the use of ADR. Overall, the paper concludes that a strengthened, integrated ADR system is essential to deliver effective investor protection and to sustain a fair, transparent, and trustworthy Indonesian capital market. The field data for 2021 to 2025 give these conclusions an empirical foundation. Over that period LAPS-SJK received 11,849 complaints across all financial sectors, of which fewer than one hundred came from the capital market, while the religious courts received a rising but still modest number of sharia economic cases, none of which arose from the sharia capital market. In the second semester of 2025 more complaints failed because the financial services provider refused mediation, 23.70 per cent, than were successfully settled through mediation and arbitration combined, 14.20 per cent. Underuse and unenforceability are therefore not projections but recorded facts.

Read through Islamic economic law, these three recommendations acquire an additional justification and a sharper institutional content. Protecting the investor is an expression of ḥifẓ al-māl, and ṣulḥ and taḥkīm are its established procedural vehicles, so that an ADR system that is fast, fair, and enforceable is not merely efficient but normatively required. For the sharia capital market this means transforming DSN-MUI fatwas into binding regulatory norms, creating a sharia panel with dually competent arbitrators inside LAPS-SJK, making a ṣulḥ stage mandatory before adjudication, settling the enforcement route through the religious courts in line with their absolute competence over sharia economic disputes, and widening sharia financial and legal literacy. Only when the conventional and sharia layers of the system are designed together will investor protection in the Indonesian capital market be complete in substance, coherent in structure, and trusted in practice.

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