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Research Article

LEGAL PROTECTION FOR CONSUMERS OF SHARIA FINTECH LENDING (*PINJOL SYARIAH*) IN INDONESIA: A REGULATORY AND ETHICAL REVIEW

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Abstract

The rapid expansion of Sharia-compliant Financial Technology (Fintech) lending in Indonesia offers significant opportunities for financial inclusion. However, this growth has outpaced the development of a comprehensive regulatory framework, exposing consumers to considerable risks, including data privacy breaches, unclear contract terms, and unethical debt collection practices that may contravene Islamic principles. This study aims to critically analyze the adequacy of the current legal framework in providing protection for consumers of Sharia Fintech lending services in Indonesia, identifying key regulatory gaps and ethical inconsistencies. This research utilizes a normative juridical method. It involves a systematic analysis of primary legal sources, including laws and regulations from Indonesia's Financial Services Authority (OJK), alongside secondary sources like academic literature and relevant case law. The analysis is further enriched by an ethical review based on foundational principles of Islamic law (Sharia). The findings reveal significant deficiencies in the existing legal infrastructure. While OJK regulations are in place, critical gaps persist concerning personal data protection, the transparency of digital contracts (*akad*), and effective dispute resolution mechanisms. Several prevalent industry practices, particularly in debt collection, were found to be misaligned with Sharia principles of justice (al-'adl) and the prohibition of harm (dharar). Legal protection for consumers in Indonesia's Sharia Fintech lending sector is currently insufficient. Urgent regulatory reforms are necessary to strengthen data privacy laws, enforce transparent and fair contracts, and ensure that all operational practices strictly adhere to Sharia ethics to build a sustainable and trustworthy digital Islamic economy.

Keywords: Consumer Protection, Financial Technology, Sharia Fintech.

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INTRODUCTION

The global financial landscape is undergoing a profound and rapid transformation, catalyzed by the disruptive force of financial technology, or fintech. This digital revolution has democratized access to financial services, creating unprecedented opportunities for financial inclusion by reaching populations historically underserved by traditional banking institutions (Bakhouche et al., 2022). Fintech lending, in particular, has emerged as a powerful instrument for channeling capital to individuals and small enterprises, leveraging data analytics and mobile technology to streamline credit assessment and disbursement processes (Ali et al., 2021). This paradigm shift promises greater efficiency, transparency, and accessibility, fundamentally reshaping the relationship between consumers and financial service providers (Abdurrahman, 2025).

Indonesia, as the world's fourth most populous nation with a significant unbanked and underbanked population, represents a particularly fertile ground for the fintech revolution (Ryandono et al., 2025). The proliferation of mobile internet access and a digitally-savvy demographic have fueled an exponential growth in the online lending (pinjaman online or pinjol) sector (Setyawati & Pranindita, 2025). This surge in digital credit has unlocked vital economic opportunities for millions, providing them with the necessary liquidity for consumption, education, and entrepreneurial ventures. The fintech lending industry has thus become a critical component of the national strategy for enhancing financial inclusion and stimulating economic activity at the grassroots level (Kok et al., 2022).

Within this dynamic ecosystem, a unique and rapidly growing sub-sector has emerged: Sharia-compliant fintech lending (Tanchangya et al., 2025). Catering to the needs of the world's largest Muslim-majority population, Sharia fintech platforms are designed to operate in accordance with the principles of Islamic finance (Ghaemi Asl et al., 2024). These principles fundamentally prohibit the charging of interest (riba) and transactions involving excessive uncertainty (*gharar*) or gambling (*maysir*), instead structuring financing based on permissible contracts (*akad*) such as profit-sharing (*mudharabah*) or cost-plus sale (*murabahah*). The rise of Sharia fintech represents a significant convergence of faith, finance, and technology, aiming to provide financial solutions that are not only accessible but also ethically and religiously sound (Kamal Basir et al., 2025).

This explosive growth, while beneficial, has concurrently created a complex and challenging regulatory environment (Eshun & Kočenda, 2025). The speed of technological innovation in the fintech sector has significantly outpaced the development of a comprehensive and robust legal framework to govern its operations (Hidajat, 2020). This regulatory lag creates a precarious situation where the immense potential of fintech is shadowed by substantial risks to consumer welfare. As millions of Indonesians increasingly turn to digital platforms for their financial needs, they enter a nascent marketplace where the rules of engagement are often unclear, and the mechanisms for their protection are underdeveloped (Suryono et al., 2021).

The specific problems confronting consumers of Sharia fintech lending are multifaceted, encompassing legal, technological, and ethical dimensions (Jannat, 2025). A primary area of concern is the protection of personal data. In the process of credit scoring, fintech platforms often require extensive access to sensitive user data stored on mobile devices, including contact lists, call logs, and photo galleries (Berger et al., 2024). The absence of stringent data protection laws and effective enforcement creates a significant risk of data misuse, unauthorized sharing, and severe breaches of privacy. Consumers are often compelled to grant sweeping data permissions without fully understanding the long-term implications for their personal security (Alshater et al., 2022).

Furthermore, a critical issue resides in the nature of the digital contracts (*akad*) and the methods of debt collection employed by many platforms. The terms and conditions of these digital agreements are frequently presented in a lengthy and complex format that is difficult for the average consumer to comprehend, creating a significant information asymmetry that can

lead to predatory lending practices (Seidl et al., 2024). More alarmingly, unethical debt collection tactics have become rampant, including the use of intimidation, harassment, and "social shaming" through the public disclosure of a borrower's debt to their personal contacts (Marszk & Lechman, 2023). These practices not only cause profound psychological distress but also stand in stark contradiction to the foundational Islamic principles of justice (*al-'adl*) and the prohibition of causing harm (*dharar*), undermining the very "Sharia" identity these platforms claim to uphold (Dewi et al., 2025).

The primary objective of this research is to conduct a critical and comprehensive analysis of the adequacy of the existing legal framework in providing protection for consumers of Sharia fintech lending services in Indonesia (Asyiqin et al., 2024). This study aims to systematically identify the regulatory gaps, legal ambiguities, and ethical inconsistencies that currently expose consumers to significant risks. The ultimate goal is to evaluate the extent to which the current legal and regulatory architecture aligns with both universal principles of consumer protection and the specific ethical imperatives of Islamic law (Akbar et al., 2023).

To achieve this overarching objective, this paper will pursue several specific research aims. First, it will meticulously map the current regulatory landscape governing Sharia fintech lending, with a particular focus on the regulations issued by Indonesia's Financial Services Authority (OJK) and relevant data privacy laws. Second, it will identify and analyze the principal areas of consumer vulnerability, including data protection, contractual transparency, and dispute resolution mechanisms. Third, the study will conduct an ethical review of prevalent industry practices, assessing their compliance with core Sharia principles.

Through this multi-faceted analysis, this research endeavors to formulate a set of concrete and actionable recommendations for regulatory reform. The aim is to propose specific legal and policy interventions designed to strengthen consumer protection, enhance regulatory oversight, and ensure the Sharia fintech industry develops in a manner that is not only economically sustainable but also legally sound and ethically robust. The study seeks to provide a clear roadmap for fostering a safer and more trustworthy digital Islamic financial ecosystem in Indonesia.

The existing body of scholarly literature on fintech in Indonesia has grown considerably in recent years, with many studies focusing on its role in promoting financial inclusion, its economic impact, and the technological innovations driving its growth. A separate and well-established field of literature exists on the principles of Islamic finance and the development of the Sharia-compliant financial industry. There is also a growing number of legal analyses concerning conventional fintech lending and the regulatory challenges it poses for the OJK.

Despite this existing research, a significant and critical gap persists at the intersection of these domains. There is a scarcity of scholarly work that provides an integrated and in-depth analysis of consumer protection specifically within the Sharia fintech lending sector from a dual legal-ethical perspective. While some studies touch upon regulatory issues, they often do not conduct a granular analysis of the specific vulnerabilities faced by consumers in the digital environment. Similarly, while many works discuss the theory of Sharia finance, they frequently do not apply these principles to a critical review of the actual on-the-ground practices of the modern fintech industry.

The current literature, therefore, remains fragmented. Legal analyses often overlook the unique ethical dimensions and contractual specificities of Sharia-compliant products, treating them as identical to their conventional counterparts. Conversely, studies on Islamic finance may not possess the technical or legal depth to critically engage with the specific regulatory challenges posed by digital platforms, such as data privacy and the validity of electronic contracts. This research directly addresses this lacuna by synthesizing these disparate fields, providing a holistic analysis that is currently absent.

The primary novelty of this research lies in its unique, interdisciplinary analytical framework. This study is among the first to systematically bridge the gap between normative

juridical analysis and applied Sharia ethics in the specific context of Indonesian fintech lending. It moves beyond a purely descriptive account of existing regulations to offer a critical evaluation of their adequacy, using the principles of Islamic law not merely as a label, but as a rigorous analytical lens to assess the industry's ethical integrity. This integrated legal-ethical approach constitutes a novel contribution to the field.

The justification for this research is compelling from both a scholarly and a societal perspective. Academically, it contributes to the nascent but critically important field of Islamic fintech studies, offering a nuanced case study that enriches the global discourse on the regulation of technology-driven financial innovation. It provides a new framework for analyzing the challenges that arise when traditional religious-ethical systems are translated into high-speed, data-intensive digital platforms.

From a societal standpoint, the justification is even more urgent. As millions of Indonesians, many of whom are financially vulnerable, turn to Sharia fintech for credit, their protection becomes a matter of pressing social justice. This research is vital for safeguarding public welfare, preventing predatory practices, and ensuring that the Sharia digital economy develops in a manner that is trustworthy, sustainable, and true to its foundational ethical principles. It aims to provide regulators, industry players, and consumers with the critical insights needed to build a safer and more equitable financial future.

RESEARCH METHOD

Research Design

This research employs a normative juridical research design, a methodology centered on the analysis of legal norms, principles, and regulations. This approach is doctrinal in nature, focusing on the law as a written body of rules (law in books) to evaluate the coherence, consistency, and adequacy of the existing legal framework for consumer protection in the Sharia fintech sector. The study integrates a descriptive-analytical method to systematically describe the current regulations and critically analyze their effectiveness and alignment with both national legal principles and the ethical foundations of Islamic law (Alsaghir, 2023).

Research Target/Subject

The data for this study consists of primary and secondary legal materials, which constitute the "population" in normative legal research. The primary legal materials include the 1945 Constitution of the Republic of Indonesia, relevant national laws (Undang-Undang) such as the Law on Information and Electronic Transactions (ITE Law) and the Personal Data Protection (PDP) Law, and specific government and ministerial regulations. Critically, this includes all Financial Services Authority Regulations (Peraturan Otoritas Jasa Keuangan - POJK) governing peer-to-peer lending and Sharia fintech, as well as relevant Fatwas from the National Sharia Council of the Indonesian Ulema Council (DSN-MUI). Secondary legal materials comprise peer-reviewed academic articles, legal textbooks, official commentaries on laws, and reputable reports from consumer protection agencies that analyze and interpret the primary sources (Abd Wahab et al., 2023).

Research Procedure

The research was conducted through a systematic, four-phase procedure. The first phase involved the identification and inventory of all relevant primary and secondary legal materials pertaining to Sharia fintech and consumer protection in Indonesia. In the second phase, these collected materials were classified and systematized according to their legal hierarchy and thematic relevance, such as data privacy, contract law (*akad*), and dispute resolution. The third phase consisted of a detailed legal analysis and interpretation, where the content of the regulations was critically examined to identify specific weaknesses, ambiguities, and

regulatory gaps. The final phase involved synthesizing the findings from the legal analysis with the results of the Sharia ethical review to draw comprehensive conclusions and formulate evidence-based recommendations for strengthening the consumer protection framework (Nagimova, 2023).

Instruments, and Data Collection Techniques

The principal instrument for data collection in this study is a comprehensive document study and literature review. The analytical process is guided by a statutory and conceptual approach. The statutory approach (*pendekatan perundang-undangan*) involves a meticulous examination of the legal norms and hierarchy of regulations to identify potential conflicts or gaps. The conceptual approach utilizes established legal theories of consumer protection as a benchmark for analysis. Furthermore, a key analytical instrument is a bespoke ethical review framework derived from the core principles of Islamic jurisprudence (*fiqh al-mu'amalat*), including the objectives of Sharia (*Maqasid al-Shariah*), and principles such as justice (*al-'adl*), trust (*amanah*), and the prohibition of harm (*dharar*) (Bin-Nashwan et al., 2023).

Data Analysis Technique

The data analysis techniques used in this study encompass several approaches to examine relevant legal norms and regulations. First, a statutory approach is applied by conducting an in-depth examination of legal norms and regulatory hierarchies to identify conflicts, gaps, or inconsistencies in existing regulations. Second, a conceptual approach utilizes consumer protection legal theories as benchmarks for analyzing the effectiveness, coherence, and conformity of these regulations with national legal principles. Third, a specific ethical framework based on the principles of fiqh al-mu'amalat and Maqasid al-Shariah is used to assess the regulation's alignment with ethical values in Islamic law, including the principles of justice (*al-'adl*), trustworthiness (*amanah*), and the prohibition of harm (*dharar*). This combination of qualitative analysis techniques allows the study to systematically evaluate Sharia fintech regulations from both positive law and Sharia ethics perspectives (Mohd Haridan et al., 2023).

RESULTS AND DISCUSSION

The analysis of the primary legal materials reveals that the regulatory framework for Sharia fintech lending in Indonesia is principally governed by a combination of regulations from the Financial Services Authority (OJK) and fatwas from the National Sharia Council of the Indonesian Ulema Council (DSN-MUI). These documents establish the foundational legal and ethical parameters within which licensed Sharia fintech operators are expected to function. The core regulations address aspects of licensing, operational conduct, and risk management, signifying a clear intent by the state to oversee this nascent industry (Yudaruddin, 2023).

A systematic description of the key legal instruments demonstrates the multi-layered nature of the current regulatory approach. The table below identifies the cornerstone regulations and their primary focus areas concerning consumer protection, providing a clear overview of the existing legal architecture. This data serves as the baseline for assessing the adequacy and comprehensiveness of consumer safeguards in the sector.

Table 1. Key Regulatory Instruments for Consumer Protection in Indonesian Sharia Fintech Lending

Regulatory Instrument	Issuing Body	Primary Focus Area for Consumer Protection
OJK Regulation No. 77/POJK.01/2016	OJK	Licensing, institutional requirements, general risk management for all P2P lending.

OJK Regulation No. 10/POJK.05/2022	OJK	Updated comprehensive regulation for P2P lending, including some consumer data protection rules.
DSN-MUI Fatwa No. 117/DSN-MUI/II/2018	DSN-MUI	Sharia compliance for information technology-based financing services, outlining permissible contracts (*akad*).
Law No. 27 of 2022	Parliament/Gov't	Personal Data Protection (PDP Law), establishing general principles for personal data processing.

The data presented in the table explains that a formal regulatory structure is indeed in place. The existence of specific OJK regulations demonstrates a clear acknowledgment by the financial authority of the need to govern the peer-to-peer lending sector, including its Sharia-compliant segment. The DSN-MUI Fatwa further shows an effort to ensure that the products offered are aligned with Islamic principles, at least in their contractual form. This framework provides a necessary, albeit basic, foundation for market order and legitimacy.

However, a deeper explanation of this data reveals significant limitations. The regulations, particularly POJK No. 77, are often broad and principle-based, lacking the granular, prescriptive rules necessary to address the specific harms emerging in the digital environment. While the newer POJK No. 10 and the PDP Law have begun to address data protection, they still fall short of providing clear prohibitions against specific unethical practices. The framework establishes a structure but lacks the detailed enforcement mechanisms needed for robust consumer protection.

Further descriptive analysis focuses on secondary data sourced from reports by consumer protection bodies, such as the Indonesian Consumers Foundation (YLKI), and extensive media documentation. This data consistently highlights a high volume of consumer complaints specifically directed at the fintech lending sector, including platforms branded as Sharia-compliant. The most frequently cited issues are: (1) excessive and intrusive access to personal data on borrowers' mobile devices, (2) opaque and confusing fee structures in digital contracts (*akad*), and (3) the use of aggressive and unethical debt collection tactics.

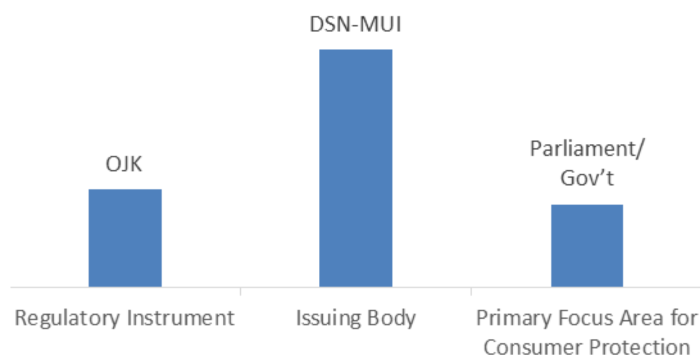

Figure. 1 Systematic Description of the Key Legal Instruments Demonstrates

This secondary data paints a stark picture of the consumer experience, which often diverges sharply from the intended protections outlined in the formal regulations. Reports

detail how fintech platforms, under the guise of credit scoring, harvest extensive personal data far beyond what is necessary for the service. Furthermore, numerous documented cases reveal debt collection practices involving harassment, intimidation, and the shaming of borrowers by contacting their families, friends, and employers a practice known locally as "debt collector terror."

An inferential analysis of the gap between the formal legal framework and the documented consumer complaints leads to a clear conclusion: the current regulatory regime is inadequately enforced and substantively deficient. The persistence of widespread consumer harm, despite the existence of OJK regulations, implies a significant enforcement deficit. The regulatory tools are either too blunt to address specific digital harms or the supervisory capacity of the OJK is insufficient to effectively monitor and penalize the vast number of operators in the market (Putri et al., 2023).

An ethical inference drawn from comparing the DSN-MUI Fatwa with prevalent industry practices is equally stark (Mertzanis et al., 2024). A profound disconnect exists between the Sharia principles that these platforms publicly espouse and their actual operational conduct. The use of intimidation and public shaming in debt collection is in direct violation of the foundational Islamic principles of preserving human dignity (*hifz al-'ird*) and preventing harm (*dharar*). This suggests that for many operators, the "Sharia" label is used as a marketing tool rather than a guiding ethical compass for all business practices (Rabhan & Almezeini, 2025).

A direct causal relationship can be established between the ambiguities in the existing legal framework and the specific types of consumer harm observed. The widespread practice of harvesting excessive personal data, for example, is directly related to the lack of explicit prohibitions and clear limitations within both the OJK regulations and the PDP Law regarding the scope of data access for fintech applications. This legal grey area has been systematically exploited by platforms to the detriment of consumer privacy.

Similarly, the relationship between weak contractual regulations and consumer financial harm is evident. The OJK framework does not mandate a standardized, simplified, and easily comprehensible format for digital financing agreements (*akad*). This absence of a "plain language" requirement for contracts allows platforms to obscure the true cost of credit through complex clauses and convoluted fee structures, leading to situations where consumers are trapped in debt spirals they did not anticipate, a practice that borders on excessive uncertainty (*gharar*), which is prohibited in Sharia.

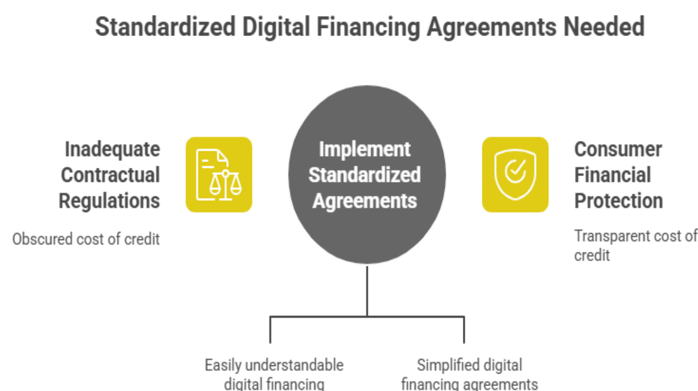

Figure. 2 Standardized Digital Financing Agreements Needed

A representative case study, synthesized from multiple consumer reports, illustrates these failures (Yuli & Rofik, 2023). A consumer downloads a licensed Sharia fintech application

and, in order to secure a small loan, is required to grant the application permission to access their entire contact list, photo gallery, and microphone (Hamzah et al., 2025). The digital murabahah (cost-plus sale) contract is presented in a lengthy scroll-through format with complex legal terminology that obscures the effective annual percentage rate. The consumer, in urgent need of funds, accepts the terms (Hassan et al., 2022).

The case continues with the consumer defaulting on a payment due to a sudden loss of income. Immediately, the fintech platform's debt collection department begins a campaign of harassment, including multiple threatening phone calls per day. Crucially, the collectors utilize the harvested contact list to call the consumer's parents, siblings, and employer, informing them of the debt and falsely accusing the consumer of being a fraudster. This act of public shaming causes severe emotional distress and reputational damage to the consumer.

The legal explanation for this case is that the platform's actions navigate the gaps in the current regulatory framework. While the PDP Law exists, its enforcement regarding third-party data access by fintech is still weak. The debt collection tactics, while profoundly unethical, are often not explicitly criminalized unless they involve direct physical threats, leaving consumers with little effective legal recourse. The OJK's complaint mechanism is often overwhelmed, resulting in slow or inadequate responses to such violations.

The ethical explanation is that the platform's conduct represents a complete failure of Sharia compliance in practice. The collection method directly contravenes the Islamic principle of justice (al-'adl) and the explicit prohibition against causing undue harm (*dharar*). The act of shaming a debtor is a violation of their dignity, a core objective of Sharia (*Maqasid al-Shariah*). This case demonstrates that the formal "Sharia" label on the contract does not guarantee an ethically compliant process, particularly when the consumer is in a vulnerable position.

The cumulative results of this normative analysis indicate that the legal protection afforded to consumers in the Indonesian Sharia fintech lending sector is fragmented, insufficient, and inadequately enforced. A significant chasm is evident between the high-level principles articulated in laws and regulations, the ethical ideals of Islamic finance, and the lived reality of consumers interacting with these digital platforms. The framework is ill-equipped to handle the specific, technology-driven harms that characterize the modern digital credit market (Mawardi et al., 2024).

In short, the interpretation of these findings is that the current consumer protection regime is failing to keep pace with the market it is intended to govern. The legal infrastructure lacks the necessary specificity and the enforcement mechanisms lack the necessary teeth to be effective. This leaves consumers in a position of significant structural vulnerability, where the promise of financial inclusion offered by Sharia fintech is dangerously undermined by the real-world risks of financial exploitation and the violation of fundamental rights.

This research has systematically established that the legal framework for protecting consumers of Sharia fintech lending services in Indonesia is fundamentally inadequate. The findings reveal a significant chasm between the formal regulations in place, the foundational ethical principles of Islamic finance, and the actual operational practices of many industry players (Kholidah et al., 2022). A clear pattern of regulatory gaps, particularly in the critical areas of personal data protection, contractual transparency, and effective dispute resolution, has been identified. The current legal architecture, while providing a basic structure for licensing, is ill-equipped to address the specific, technology-driven harms faced by consumers in the digital credit market.

The analysis further concludes that the enforcement of existing regulations is weak and inconsistent. The high volume of documented consumer complaints, ranging from privacy breaches to unethical debt collection tactics, persists despite the presence of a formal regulatory body. This enforcement deficit suggests that the supervisory capacity of the Financial Services Authority (OJK) is currently overwhelmed by the sheer scale and rapid evolution of the fintech

sector. The situation creates a high-risk environment where the promise of financial inclusion is dangerously undermined by the reality of consumer vulnerability.

A central finding of this study is the profound disconnect between the "Sharia" branding of these platforms and their operational ethics. The investigation reveals that for a significant portion of the market, the Sharia label is applied superficially to the financing contract (*akad*) but does not extend to the entirety of the business process. The widespread use of coercive and reputation-damaging debt collection methods stands in stark and direct contradiction to the core Islamic principles of justice (*al-'adl*), compassion (*rahmah*), and the prohibition of causing harm (*dharar*), amounting to a form of "ethical dissonance."

Ultimately, the results paint a picture of a regulatory ecosystem in a reactive, rather than proactive, posture. The legal framework is struggling to keep pace with technological and market developments, leaving consumers in a position of significant structural disadvantage. The combination of legal ambiguities, weak enforcement, and ethical inconsistencies has fostered a marketplace where the rights and welfare of consumers are not sufficiently protected, jeopardizing the long-term trust and sustainability of the nascent digital Islamic economy in Indonesia (C. Chiara et al., 2023).

The findings of this paper are consistent with a broader global body of literature that identifies a "regulatory lag" as a defining characteristic of the fintech era. Scholars across numerous jurisdictions have noted that the speed of financial innovation consistently outstrips the capacity of regulatory bodies to develop and implement adequate safeguards (Khan et al., 2024). Our research confirms this global phenomenon within the specific context of Indonesia, demonstrating that the challenges of governing digital finance are not unique but are exacerbated by the country's specific socio-legal conditions.

This study diverges from and enriches the existing literature in several crucial ways. Much of the legal scholarship on fintech in Indonesia has focused on the conventional (non-Sharia) sector or on the broader theme of financial inclusion. Our research contributes a more focused and critical analysis of the Sharia-compliant segment, a rapidly growing but under-researched area. By doing so, it introduces an essential ethical and religious dimension to the regulatory debate that is often overlooked in purely secular legal analyses.

Furthermore, our work provides a critical, real-world counterpoint to the largely theoretical literature on Islamic finance. While many scholarly works focus on the ideal structures and principles of Sharia-compliant contracts, this study examines the "law in action" by analyzing the actual practices of the industry (A. Chiara et al., 2023). It reveals a significant gap between the theoretical purity of Islamic financial principles and their often-flawed application in a high-pressure, profit-driven digital market, thereby grounding abstract principles in empirical reality.

This paper also challenges the uniformly positive narratives surrounding fintech's role in promoting financial inclusion. While we acknowledge fintech's potential to reach the unbanked, our findings serve as a critical corrective, arguing that financial inclusion without robust consumer protection is not a sustainable or ethical form of development. It can, in fact, create new vectors of financial exploitation and digital disenfranchisement, a crucial nuance that complicates overly optimistic assessments of fintech's societal impact.

These research findings are a clear signal of a systemic failure to balance financial innovation with consumer welfare. They reflect a governance model that has prioritized market growth over the establishment of foundational safeguards, resulting in a system where consumer rights are a secondary consideration. The persistence of widespread unethical practices is a sign that the current regulatory framework is not merely lagging but is fundamentally ill-suited to the nature of the risks inherent in data-driven, high-speed digital lending.

The results are also a profound reflection on the integrity of the Sharia finance brand in the digital age. The demonstrated gap between the ethical claims of "Sharia" fintech and the

reality of their consumer-facing practices points to a significant risk of "ethical dilution" or "Sharia-washing (Amlia et al., 2025)." This signifies a broader challenge for the global Islamic economy: as it expands into new, technology-driven sectors, there is a danger that its core ethical principles will be co-opted as a marketing tool rather than being implemented as a non-negotiable operational ethos.

The situation is a stark reflection of the deep power asymmetries that characterize the digital economy. The findings signify the structural vulnerability of the modern digital consumer, who faces complex and opaque terms of service, possesses limited bargaining power, and is often forced to trade extensive personal data for access to financial services. The problems identified in this study are a contemporary manifestation of a classic consumer protection challenge, now amplified by the scale, speed, and data-intensive nature of technology.

Ultimately, these results are a signal that traditional Islamic jurisprudence (f*iqh al-mu'amalat*) is facing a significant challenge of adaptation. The struggle to apply centuries-old ethical principles to complex modern issues like algorithmic credit scoring, digital data privacy, and online harassment highlights an urgent need for contemporary scholarly interpretation (*ijtihad*). The findings reflect the critical need for Islamic legal and ethical frameworks to evolve in order to remain relevant and effective in governing new technological realities.

The primary implication of this research is for Indonesia's financial and legal regulators, particularly the OJK. The findings constitute a call for urgent and comprehensive regulatory reform. It is no longer sufficient to rely on broad, principle-based regulations. A move towards more specific, prescriptive rules is necessary, including clear prohibitions on the harvesting of non-essential personal data and the explicit criminalization of unethical debt collection tactics. The OJK must also be endowed with greater resources to significantly enhance its supervisory and enforcement capabilities.

For the Sharia fintech industry itself, the implications are profound. This research highlights a serious long-term reputational risk. If the "Sharia" brand becomes widely associated with predatory and unethical practices, it will suffer a catastrophic loss of consumer trust, which is the foundational asset of any financial system. There is a compelling business case for the industry to move towards stronger self-regulation, adopt a binding code of ethical conduct, and champion a race to the top in consumer protection as a means of ensuring its own long-term sustainability and legitimacy.

There are also significant implications for Indonesian consumers and the civil society organizations that represent them. The study underscores the critical need for nationwide campaigns to improve digital and financial literacy, equipping consumers with the knowledge to better understand the risks and protect themselves. For consumer advocacy groups, these findings provide an evidence-based platform to intensify their demands for stronger laws, more effective enforcement, and greater corporate accountability from the fintech sector.

Finally, this research has important implications for both legal and Islamic scholarship. It highlights the urgent need for an interdisciplinary research agenda focused on the intersection of law, technology, and Islamic ethics. Academics have a crucial role to play in helping to develop a modern jurisprudence for the digital economy a fiqh of fintech that can provide clear, practical, and ethically sound guidance for regulators, industry practitioners, and the judiciary in navigating these complex new challenges.

The observed regulatory failures are the result of a confluence of powerful forces. The primary driver is the sheer velocity of market growth, fueled by immense venture capital investment and massive consumer demand. This "hyper-growth" dynamic creates a powerful incentive for fintech operators to prioritize rapid customer acquisition and market share over the more costly and time-consuming process of building robust compliance and ethical

frameworks. The commercial pressure for speed has simply overwhelmed the deliberative pace of regulation.

A second key reason is the institutional capacity gap. The OJK, like many of its global counterparts, faces significant challenges in recruiting and retaining staff with the specialized technical expertise required to effectively supervise a complex, algorithm-driven industry. This asymmetry in technical knowledge between the regulators and the regulated creates significant difficulties in monitoring for compliance and identifying novel forms of consumer harm that are embedded in code and data models.

The very nature of the technology itself is a contributing factor. Digital platforms are designed for scale and automation, which means that a single flawed or predatory feature such as an opaque contract template or an intrusive data access permission can be instantly deployed to millions of users. This allows for the commission of consumer harm at a scale and speed that was unimaginable in the analog era, making reactive regulatory responses inherently inadequate.

The specific socio-legal context of Indonesia also plays a crucial role. Indonesia's comprehensive Personal Data Protection (PDP) Law was only passed in late 2022, and its full implementation and enforcement infrastructure are still in their nascent stages. The Sharia fintech industry thus matured within a legal environment that, for many years, lacked a strong data privacy foundation. The unethical data practices identified in this study became entrenched during this period of legal ambiguity and are now proving difficult to uproot.

This study, while providing a comprehensive normative analysis, has limitations that point toward a clear agenda for future work. The immediate next step must be a call for direct regulatory action. We recommend the formation of a multi-stakeholder task force comprising the OJK, the DSN-MUI, industry associations, and consumer protection groups to draft a specific and binding "Code of Conduct for Sharia Fintech." This code must include clear, prescriptive rules on data minimization, contract transparency, and the absolute prohibition of extra-judicial collection harassment.

Future research must move beyond the normative to the empirical. There is a pressing need for large-scale quantitative surveys to measure the prevalence of consumer harm in the sector and to identify the demographic groups that are most vulnerable. This should be complemented by qualitative, in-depth interviews with both consumers who have suffered harm and industry insiders to gain a deeper understanding of the mechanisms of exploitation and the internal barriers to ethical conduct within fintech firms (Rahma et al., 2023).

Comparative legal research is another critical avenue for future inquiry. A systematic comparison of Indonesia's regulatory approach with that of other Muslim-majority countries with significant fintech sectors, such as Malaysia and the United Arab Emirates, would be highly valuable. Such a study could identify international best practices and provide evidence-based policy lessons that could inform and accelerate Indonesia's own regulatory reform process.

Ultimately, a long-term solution requires a focus on building a stronger ecosystem of digital and financial literacy. Future work should explore the most effective models for educating the public about their data rights, the risks of online lending, and the principles of sound financial management (Fauzi et al., 2023). This educational imperative extends to the next generation of professionals; research into integrating "fintech ethics" into the curriculum of law schools and Islamic finance programs is essential for cultivating a future cohort of lawyers, regulators, and industry leaders equipped to build a more just and responsible digital economy.

CONCLUSION

The most distinctive finding of this research is the identification of a profound and systemic gap between the ethical branding and the operational reality of Indonesia's Sharia fintech lending industry. This study reveals that despite a formal regulatory framework, consumer protection is critically inadequate, leading to widespread harms such as severe data privacy violations and unethical debt collection practices. This disconnect represents not only a failure of legal enforcement but, more uniquely, a significant "ethical dissonance," where the foundational principles of Islamic finance justice, transparency, and the prohibition of harm are systematically contravened by the very platforms that use the Sharia label for market legitimacy.

The primary contribution of this research is conceptual, achieved through its integrated, interdisciplinary methodology. By synthesizing a normative juridical analysis with a Sharia-based ethical review, this study provides a novel and more holistic framework for evaluating the digital Islamic economy. Its value lies in moving beyond a standard legal critique to expose the deep-seated contradictions between an industry's religious identity and its actual conduct. This dual-lens approach offers a more nuanced and critical understanding of the challenges facing modern Islamic finance and provides a new model for future scholarship in the field.

This study's normative juridical approach, while providing a thorough analysis of the legal framework, is bound by its focus on documented laws and reported cases rather than large-scale empirical data from consumers. Its findings are also specific to the Indonesian legal context. These limitations define a clear path for future research. The immediate next steps must include comprehensive empirical studies, such as nationwide surveys, to quantify the prevalence of consumer harm. Furthermore, comparative legal research into the regulatory models for Sharia fintech in other nations, such as Malaysia, is essential to identify international best practices and inform the urgent need for regulatory reform in Indonesia.

AUTHOR CONTRIBUTIONS

Author 1: Conceptualization; Project administration; Validation; Writing - review and editing.

Author 2: Conceptualization; Data curation; In-vestigation.

Author 3: Data curation; Investigation.

Author 4: Formal analysis; Methodology; Writing - original draft.

CONFLICTS OF INTEREST

The authors declare no conflict of interest.

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