



Legal Protection for Retail Investors in the Use of Financial Technology (FINTECH)

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ARTICLE INFO

Keywords: Legal Protection, Retail Investors, Financial Technology

Received : 17 December 2024

Revised : 04 January 2025

Accepted: 06 February 2025

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ABSTRACT

The rapid development of financial technology (fintech) has brought convenience in various aspects of financial transactions, including for retail investors. Despite providing new opportunities, fintech also presents challenges related to legal protection for retail investors, given the lack of clear regulations and the potential risks of fraud, platform bankruptcy, and financial loss. This study aims to examine the existing legal protection for retail investors in the use of fintech in Indonesia. Using an analytical descriptive approach, this study analyzes the existing regulations, as well as the protection mechanisms provided by the Financial Services Authority (OJK) and Bank Indonesia (BI). The results show that although regulations are in place, there are some gaps that need to be addressed, especially in terms of fintech platform transparency and investor rights. This research suggests the need for strengthened regulation and increased supervision to create a safer and fairer fintech ecosystem for retail investors. One of the main challenges is the difficulty in implementing regulations that are flexible but still provide adequate protection for retail investors, given the many fintech business models that continue to emerge.

INTRODUCTION

The financial system is essentially an arrangement within a country's economy that plays a crucial role in providing financial services facilitated by financial institutions and other supporting entities (Gazali & Usman, 2016). Financial technology (Fintech) is the result of combining financial services with technology, leading to a shift in business models from conventional to modern. Before fintech, payment processes had to be conducted in person with physical cash. However, transactions can now be completed remotely with effective payments in just seconds. The development of financial technology (fintech) has brought rapid changes to the financial world, particularly in how people access and participate in financial markets. Fintech offers easy accessibility, including faster transaction processes, cost efficiency, and broader access to investment products. However, alongside these advancements, new risks and challenges arise, especially for retail investors. The empowerment of technology in the digital financial services sector has positioned Indonesia as a significant player in digital finance. The World Economic Forum (2015) predicted that Indonesia would become one of the largest digital markets in Southeast Asia by 2020 (Utomo, 2015).

In recent decades, individual participation in the investment world has increased significantly. Individuals who invest their own funds, known as retail investors, now play a crucial role in financial markets. They have direct access to various financial products such as stocks, bonds, mutual funds, and digital assets, facilitated by technological advancements, particularly through fintech (financial technology) platforms. Retail investors are individuals who conduct independent investment transactions through investment managers or securities companies. The number of retail investors in Indonesia's capital market has been growing significantly. This increase is driven by various factors, including promising returns in the capital market and the ease of opening investment accounts online (Firdaus, 2025). The term "retail investor" is commonly used in the stock market, where retail investors typically invest through regular, online, or other brokerage firms. The assets or capital traded by retail investors are generally not very large, usually falling within the small to medium scale compared to institutional investors such as banks, insurance companies, or pension funds (Saretta, 2024).

Technological advancements, financial inclusion, and the digitalization of the financial sector have created significant opportunities for retail investors to participate in investment activities that were previously dominated by institutional investors. Easily accessible digital platforms allow retail investors to start investing with minimal capital, providing broader segments of society with opportunities to improve their financial well-being. However, alongside these opportunities, retail investors also face various challenges and risks. Low financial literacy, dependence on technology, and the emergence of fraudulent investment schemes pose significant threats to retail investors.

One example of fraudulent activity in financial technology is a securities company scam involving the misuse of the Ameritrade brand, a U.S.-based stock brokerage firm. Between October and November 2024, 70 victims from various

regions in Indonesia fell prey to an investment fraud scheme, losing a total of IDR 20 billion. The scam began with stock offering advertisements on social media and a WhatsApp group in September 2024. In this group, daily educational content and profit-driven stock insights were shared by Surisno Hartono, who claimed to be a mentor and head analyst at TD Ameritrade. Initially, victims were directed to trade on licensed Indonesian securities platforms such as Stockbit. However, later, Surisno claimed he was participating in the Future Capital Pioneers Competition 2024, which ran from October 2 to November 15, 2024. He urged group members to support him by selecting his name on a trading application called TdemPro, which he claimed was an international stock trading platform affiliated with TD Ameritrade.

To trade on TdemPro, victims were instructed to deposit funds into several bank accounts under the name of PT TD Ameritrade, as well as private accounts under different names using local banks such as BRI, BCA, Mandiri, OCBC, Danamon, and CIMB Niaga. Victims found it suspicious that the funds were not transferred to their personal investment fund accounts (RDN). Additionally, victims had to request a password from customer service before depositing funds. Another red flag was that the so-called international trading platform used a mix of English and Indonesian.

Furthermore, victims were pressured into purchasing initial public offering (IPO) shares of international issuers in mid-October 2024. They were persistently encouraged – sometimes through personal messages – to order IPO shares for free, promising up to 50% profit. When the IPO quotas were released with high values, victims had to deposit sufficient funds based on the exchange rate to withdraw their profits. However, when it was time to sell the IPO shares, the schedule kept getting postponed due to various excuses, including the U.S. election. After the election, the scammers claimed that the IPO was delayed due to market instability and later canceled altogether.

Realizing they had been scammed, the victims suffered significant financial losses. Agnes, a retiree who intended to learn stock investing, lost IDR 163 million. In total, 70 victims lost IDR 19.32 billion, with the largest loss being IDR 2.2 billion from an investor in Kalimantan. Eventually, victims recognized that they had been deceived by an illegal brokerage scheme that falsely used TD Ameritrade's name. TD Ameritrade was once a reputable U.S. brokerage firm (Kurnia, 2025).

The case above illustrates how retail investors or clients with limited knowledge, financial literacy, and caution in financial technology investments still face significant challenges. Therefore, legal protection for financial technology users is essential.

Given the impact of globalization on society – both positive and negative – one of the most notable changes has been rapid technological and informational advancements. The ease of accessing information and various technology-based business needs has transformed daily life. In the evolving financial ecosystem, legal protection for retail investors has become an urgent necessity to ensure they can invest safely and reliably.

Based on the background described, this study aims to examine the legal protection of retail investors in the context of fintech services and the efforts to safeguard and mitigate risks for retail investors in financial technology investments.

LITERATURE REVIEW

1. General Overview of Financial Technology

a. Definition of Financial Technology

Financial Technology (FinTech) is the result of the integration between financial services and technology, which transforms traditional business models into more modern ones. Before fintech, payment processes had to be conducted face-to-face using physical cash. However, transactions can now be carried out remotely with effective payments processed within seconds (Department of Communication, 2018). Financial Technology (FinTech) can also be defined as an innovation in the financial sector that utilizes modern technology to enhance efficiency, accessibility, and user experience in various financial services. Fintech encompasses a wide range of services and products, including digital payments, online lending, investment, financial management, and insurance. With the advancement of modern times, physical money has become less secure when conducting transactions.

b. Legal Basis for the Implementation of Financial Technology in Indonesia

In Indonesia, financial technology is regulated by various laws and regulations aimed at governing, supervising, and protecting industry players and service users. The key legal foundations governing fintech in Indonesia include:

1. Law No. 8 of 1995 on Capital Markets
2. Financial Services Authority Regulation No. 1/POJK.07/2013 of 2013 on Consumer Protection in the Financial Services Sector
3. IOSCO Objectives and Principles of Securities Regulation

c. The Use of Financial Technology

Fintech plays a crucial role in promoting financial inclusion, which is reflected in its fundamental characteristics:

- **First**, enhancing access and decentralizing financial systems. Technological advancements allow both individuals and small businesses (SMEs) that are unbanked to participate as fund providers and users within the financial system.
- **Second**, increasing transparency, accountability, and cross-sector collaboration. Technology provides greater transparency, traceability, accountability, and information sharing among the government, society, and private sector to facilitate cooperation.
- **Third**, reducing costs through improved efficiency, speed, and automation. These fintech characteristics enable financial services to be accessible to all segments of society, ensuring broader inclusion in formal financial services (Pratiwi, 2018).

2. General Overview of Legal Protection for Retail Investors in Financial Technology Usage

a. Definition of Legal Protection and Retail Investors

According to Fitzgerald, as cited by Satjipto Raharjo, the concept of legal protection originates from the theory of natural law. This school of thought was pioneered by Plato, Aristotle (Plato's student), and Zeno (the founder of the Stoic school). The natural law theory states that law originates from God, is universal and eternal, and that law and morality should not be separated. Followers of this theory believe that law and morality reflect internal and external regulations governing human life, which are manifested through legal and moral frameworks (Satjipto, 2000).

Retail investors are non-professional investors who buy and sell assets in their own names rather than on behalf of organizations or corporations. This term is commonly used in the stock market, where retail investors typically invest through regular brokerage firms, online brokers, or other means. Additionally, the volume of assets traded by retail investors is significantly smaller than that of institutional investors. In this context, retail investors or individual investors are those who invest personal capital rather than using funds on behalf of a company or another entity (Cornelia, 2009). Retail investors can also be defined as individuals who invest in financial markets, such as stocks, bonds, mutual funds, or other investment instruments, using their own funds.

METHODOLOGY

In this journal, the author employs a **normative juridical research method**, which focuses on understanding and analyzing legal norms, regulations, and legal issues relevant to the study. This research method also involves a **literature-based data collection approach**, examining books, laws and regulations, circular letters, and various legal references. The author adopts a **qualitative approach**, combining primary and secondary legal materials as supporting references in writing this journal.

RESULTS AND DISCUSSION

Definition of Retail Investors and Financial Technology (FinTech)

Investment is a term frequently used in finance and business, with various meanings depending on the context. Etymologically, the word "investment" originates from the English term "investment," which fundamentally means "to plant." Generally, investment refers to activities undertaken by individuals (natural persons) or legal entities (juridical persons) to increase or maintain the value of their assets. Investments can take various forms, including cash money, equipment or machinery, real estate or immovable assets, intellectual property rights such as patents or trademarks, and specific expertise. In other words, investment is a strategic effort involving the allocation of resources with the expectation of financial benefits or added value in the future (Rohmatussa'dyah, 2017).

In Indonesia, stock investment is regulated by the Indonesia Stock Exchange (IDX), which provides various markets for stock transactions, including the primary market, regular market, cash market, and negotiation

market. IDX also regulates key aspects such as trading hours, transaction priorities, auto-rejection mechanisms, and halting procedures to maintain market stability. Stocks are investment instruments that offer high-profit potential through capital gains and dividends but also carry significant risks, including price fluctuations and company liquidation risks. Despite these risks, stocks remain attractive to investors who are prepared for challenges and have well-planned investment strategies. On the other hand, stockholders (investors) bear substantial risks, including liquidation risk. In the event of a company's bankruptcy, shareholders are the last priority in receiving the company's liquidated assets (Paradiba & Nainggolan, 2015). Additionally, shareholders also face the risk of losses due to differences between selling and buying prices (capital loss).

According to Bank Indonesia (BI), Financial Technology (FinTech) is an innovative combination of financial services and technology that brings significant changes to business models, shifting from traditional approaches to modern systems (Harahap et al., 2017). The emergence of FinTech is driven by lifestyle transformations that increasingly prioritize efficiency and the use of information technology. FinTech provides solutions to various financial challenges, such as facilitating payment processes, simplifying investments, and offering platforms for businesses to expand their markets.

The evolution of FinTech can be divided into several stages. The first stage, from 1866 to 1987, marked the transition from an analog to a digital ecosystem. Innovations such as telephone cables and transatlantic communication enabled international financial record-keeping. In 1872, Western Union introduced electronic transfer services, which, by 1877, recorded transaction volumes of up to USD 2.5 million per year. This phase established banking and financial networks that laid the foundation for future FinTech advancements.

The second stage, from 1988 to 2007, was characterized by the adoption of the internet as the primary backbone. Major financial institutions began using mainframe computers for global transactions. Innovations such as ATMs, credit cards, and electronic foreign exchange and stock trading emerged. During this period, banks and major financial institutions were dominant players, managing transaction records through centralized systems.

The third stage, from 2008 to the present, reflects the democratization and decentralization of financial services. Besides banks, FinTech startups have become key players with innovations such as mobile wallets, payment apps, blockchain, and cryptocurrencies. These services provide consumers with more financial access options, enhance competition, and support broader financial inclusion.

Currently, FinTech is in phase 3.5 and evolving toward the fourth generation. The next generation is expected to bring more advanced innovations, although its exact form is not yet fully clear (Eka et al., 2023). Future FinTech is expected to continue adapting to modern societal needs while promoting technological advancements in the financial sector.

Legal Protection for Retail Investors in Using FinTech Services

Article 1, point 13 of Law No. 8 of 1995 on Capital Markets states that the capital market involves activities related to public offerings and trading of securities, public companies related to the securities they issue, and institutions and professions related to securities. The capital market is a translation of the term "capital market" and can refer to a system that regulates how companies fulfill their funding needs (Prabandari & Purboningtyas, 2019). Legal protection for retail investors is carried out through various mechanisms aimed at creating a transparent, fair, and fraud-free capital market. Regulations serve as the primary foundation for investor protection, as outlined in Law No. 8 of 1995 on Capital Markets, which prohibits market manipulation, insider trading, and the dissemination of false information.

Strict supervision is also carried out by the Financial Services Authority (OJK), which ensures market participants comply with regulations, educates retail investors, and provides complaint channels through the Investment Alert Task Force. Additionally, issuers and securities companies are required to disclose transparent information, allowing retail investors to access accurate and relevant data for making informed investment decisions. In case of disputes, retail investors are protected through alternative dispute resolution mechanisms provided by the Alternative Dispute Resolution Institution (LAPS), enabling them to seek justice without undergoing complex and time-consuming litigation (Septiana, 2024). With these protections, retail investors can invest safely and be shielded from unreasonable risks.

OJK plays a crucial role in protecting online investors through various strategies designed to prevent and mitigate risks and potential losses. Protection is carried out through two main approaches: preventive (prevention) and repressive (enforcement) actions (Pamungkas & Zulfikar, 2021).

Preventive measures aim to reduce the likelihood of future losses. One of OJK's efforts includes conducting public awareness campaigns and education on online investments. These initiatives are designed to increase public awareness of illegal investments, which often promise excessively high returns. Through this education, OJK hopes that people will become more cautious of non-transparent investment offers.

Furthermore, OJK grants operating licenses to entities collecting funds from the public, ensuring that only those meeting specific requirements can operate, thereby reducing fraud risks. The optimization of the Integrated Financial Consumer Services (IFCC) function is another step forward. IFCC is an OJK-provided platform for handling complaints, providing information, and assisting the public with financial product issues. OJK also issues regulations on financial service products to establish clear industry standards. Additionally, financial literacy programs are a major focus, ensuring that the public understands the benefits and risks of financial products and services.

Globally, the International Organization of Securities Commissions (IOSCO), as a leading authority in capital markets, has established the "IOSCO Objectives and Principles of Securities Regulation." This framework provides

comprehensive guidelines for capital market regulation, ensuring investor protection, market integrity, and transparency while minimizing systemic risks. Protection and Countermeasures for Retail Investors in FinTech Services

Legal protection for investors serves as a legal umbrella that ensures fairness and certainty for retail investors. In using FinTech services, retail investors have the right to receive clear, truthful, and honest information about the services provided. The government, particularly OJK, plays a key role in overseeing the implementation of FinTech services.

OJK enforces regulations such as POJK No. 77/2016 on FinTech lending, which mandates transparency, data protection, and dispute resolution. OJK also provides consumer complaint services and publishes lists of illegal FinTech companies to prevent fraud.

To protect the capital market from illegal practices, OJK established the Investment Alert Task Force through Chairman Decree No. Kep-208/BL/2007, later updated with Kep-124/BL/2012. This task force investigates and reports investment violations. Additionally, the Investor Protection Fund (IPF) serves as a safeguard, ensuring public trust in the capital market as a secure investment alternative.

In conclusion, collaboration among regulators, financial institutions, and the public is crucial to creating a safe and sustainable FinTech ecosystem.

CONCLUSION AND RECOMMENDATION

Investment, including stocks and fintech services, offers both opportunities and risks for investors, particularly retail investors. Financial Technology (FinTech) has brought significant changes to the financial industry by facilitating various transactions, including investments driven by technology. In response to the growth of fintech, legal protection for retail investors is enforced through strict regulations by both the government and the Financial Services Authority (OJK). The OJK implements preventive and repressive measures to protect investors, including education, supervision, and dispute resolution. The Investment Alert Task Force and related regulations are also part of the efforts to protect investors from illegal or harmful investment practices. Through these policies, it is expected that the capital market will remain transparent and fair, ensuring security for retail investors in both traditional markets and evolving fintech platforms.

With stringent regulations and supervision, retail investors in Indonesia can have better legal protection, whether in the traditional capital market or through fintech services. The Financial Services Authority (OJK) plays a crucial role in ensuring that only entities that meet the requirements are allowed to operate in the financial market while reducing the risk of fraud. Preventive actions through education and awareness campaigns aim to improve financial literacy among the public so they can make smarter investment decisions and avoid illegal investments that often promise unrealistic returns.

On the other hand, repressive actions are also essential in addressing legal violations, such as the establishment of the Investment Alert Task Force and the provision of dispute resolution mechanisms, which offer investors a channel to report issues and seek justice. Additionally, the advancement of technology and

innovation in the fintech sector, which continues to progress towards Industry 4.0, presents new challenges that require more adaptive and responsive regulations. With continuous updates to legal protection measures and regulatory oversight, Indonesia's investment ecosystem is expected to develop in a safer and more transparent manner, benefiting retail investors while ensuring protection against excessive risks.

Recommendations

This study has several limitations, primarily due to the quantity and quality of academic literature and the limited availability of data. First, there is a need for enhanced regulations by the government and relevant authorities, specifically with more detailed and specific legal protections for retail investors in fintech. This includes protection of personal data, transparency of information, as well as investors' rights and obligations. Second, continuous education efforts should be undertaken for retail investors regarding the risks associated with fintech investments and ways to protect themselves, whether through training programs or informational campaigns.

ADVANCED RESEARCH

In writing this article the researcher realizes that there are still many shortcomings in terms of language, writing, and form of presentation considering the limited knowledge and abilities of the researchers themselves. Therefore, for the perfection of the article, the researcher expects constructive criticism and suggestions from various parties.

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