

## Illegal Online Loans: Between Generation Millennial GAP and Regulatory Challenges in Indonesia

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### ABSTRACT

The purpose of this study is to identify the voids in knowledge regarding the use of unauthorised online loans by millennials and to comprehend the regulatory obstacles the government must surmount to combat this problem. Therefore, this study aims to provide a contribution towards endeavours that seek to diminish the prevalence of illicit online loans and enhance public consciousness regarding the perils linked to this activity. A literature review serves as the primary research method in order to gather information and conduct an in-depth analysis concerning the millennial generation's exposure to the phenomenon of unlawful online lending. Subsequently, the outcomes of this examination are succinctly documented in a research report that encompasses an overview of the issue's context, a review of pertinent literature, an evaluation of discovered results, conclusive remarks, and policy suggestions aimed at safeguarding the millennial generation against unauthorised online lending.

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### INTRODUCTION

In the current digital era, online loans have become a fast and easy financial solution for many people, including the millennial generation in Indonesia. The practicality, accessibility and relatively fast process of online loans offers an attractive alternative compared to conventional procedures at banks or other financial institutions (Suryono et al., 2021). However, the exponential growth of online lending platforms has also given rise to the phenomenon of illegal online lending which is troubling the public. Illegal online loans are often not registered and supervised by the Financial Services Authority (OJK), causing various problems such as high interest, unethical billing practices, and violations of personal data privacy. (Kwintiana et al., 2023; Muhammad Wali et al., 2023; Priliasari, 2019; Rahayu et al., 2024). The millennial generation, known as active users of digital technology, is one of the groups most vulnerable to

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the trap of illegal online loans, due to their lack of financial literacy and understanding of the risks involved.(Septanto & Rusmawan, 2023; Yuniarti & Rasyid, 2020).

Illegal online loans have a significant impact on the millennial generation and society in Indonesia. Some of these impacts include the low level of digital literacy being one of the causes of the rise in illegal online loans. This makes the millennial generation and society vulnerable to illegal lending practices. Illegal online loans can ensnare the millennial generation and society in long-term debt. High interest rates, non-transparent administration fees, and late fees can pose serious financial threats(Abdullah, 2021; Prameswari, 2022). The rise of illegal online loans also has the potential to affect the image of legal loans. This can be detrimental to financial institutions that operate legally and are supervised by the competent authorities(Mayasari et al., 2022; Setiyowati & SM, 2023).

The main problem that is the focus of this research revolves around the phenomenon of illegal online loans which are widespread among the millennial generation in Indonesia. Basically, the growth of financial technology has brought a breath of fresh air with easy access to financial services, but on the other hand, illegal online lending entities have also emerged that operate without official permission from the Financial Services Authority (OJK).(Admiral & Pauck, 2023; Muslih & Supeno, 2022). This phenomenon raises various serious problems, ranging from unreasonably high interest practices, aggressive and threatening billing methods, to the risk of leakage and misuse of users' personal data. The millennial generation, which is a demographic group with a high level of digital literacy but often has low financial literacy, is an easy target for illegal online loans(Wahyuni & Turisno, 2019).

Reporting from the Financial Services Authority (OJK), the number of complaints about illegal online loans in Indonesia has reached 3,903 cases since the beginning of 2023[4]. However, other sources say that illegal online lending practices have become rampant in a number of cities in recent years(Kusumaningsih & Yulianingsih, 2023). The number of reported cases of illegal online lending can vary depending on the source and reporting method used. Borrowers are trapped in a cycle of debt that is difficult to break due to being tempted by an easy and fast application process without fully understanding the risks and consequences involved. This problem not only impacts the financial well-being of individuals and families, but also raises broader social challenges, including the potential for increased crime rates due to pressure to pay off debts.(Simbolon & Puteri, 2020).

Therefore, this research aims to identify the gap between the millennial generation in utilizing illegal online loans and to understand the regulatory challenges faced by the government in overcoming this problem. Thus, it is hoped that this research can contribute to efforts to reduce the use of illegal online loans and increase public awareness of the dangers associated with this practice.

## METHOD

The research method used, namely literature study, was chosen as the main approach to explore information and in-depth analysis regarding the phenomenon of illegal online loans and

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its impact on the millennial generation. This process begins with determining and collecting relevant literature sources, including scientific journals, books, research reports, applicable regulations, as well as articles from government institutions or related organizations such as the Financial Services Authority (OJK). Systematic data searches using related keywords allow researchers to access broad and in-depth information (Lestari et al., 2023). Next, an evaluation is carried out on the quality and relevance of the literature found, ensuring that the information obtained is current, credible and trustworthy. Analysis and synthesis of collected data. Through this process, researchers can combine findings from various sources into a coherent conclusion (Prameswari & Chaylaurent, 2022). The results of this analysis are then outlined in a research report which includes problem background, literature review, analysis of findings, and conclusions and policy recommendations to overcome the problem of illegal online loans and increase protection for the millennial generation.

## RESULTS AND DISCUSSION

The impact of illegal online loans on the millennial generation and society in Indonesia is a complex and layered problem, covering interrelated economic, psychological and social aspects. Economically, illegal online lending practices with high interest and fines can push individuals into a debt spiral, causing financial instability that leads to difficulty meeting basic needs or planning for the future. From a psychological perspective, the pressure to pay debts, coupled with aggressive collection methods, often results in stress, anxiety, and various other mental health problems, reducing the borrower's quality of life and mental well-being. The social implications are no less serious; Family conflicts and disruptions in social relationships are becoming increasingly common, while extreme stress can drive some individuals into criminal behavior as a way to pay off debts.

Furthermore, the existence of illegal online loans also impacts public perception and trust in the digital financial ecosystem as a whole, giving rise to skepticism and hampering financial inclusion efforts. On a broader scale, if not handled effectively, this phenomenon can contribute to macroeconomic losses, where a decrease in people's purchasing power due to debt burden can slow economic growth. Thus, the urgency for intervention from governments, regulators, financial institutions and society is very high, not only to protect consumers but also to ensure healthy and inclusive economic growth. Comprehensive handling, including increasing financial and digital literacy as well as strict regulations on online lending practices, is the key to minimizing this negative impact and moving Indonesia towards a safe and sustainable digital financial ecosystem.

Apart from that, illegal online loans have a significant negative impact on society in Indonesia. What is known is that illegal online loans can ensnare the millennial generation and society in long-term debt. High interest rates, non-transparent administration fees, and late fees can pose serious financial threats. The low level of digital literacy is one of the causes of the rise of illegal online loans. This makes the millennial generation and society vulnerable to illegal lending practices (Septanto & Rusmawan, 2023). The rise of illegal online loans also has the potential to affect the image of legal loans. This can be detrimental to financial institutions that operate legally and are supervised by the competent authorities [5]. Illegal online loans often

ask for personal data from borrowers, such as KTP numbers and bank account numbers. This could jeopardize the security of the borrower's personal data if it falls into the wrong hands (Suryono et al., 2021).

Facing illegal online lending practices in Indonesia, regulators are faced with various complex regulatory challenges. One of the main challenges is the very rapid development of financial technology (fintech), making illegal online lending practices increasingly difficult to track and monitor (Muslih & Supeno, 2022). The speed of innovation often outpaces existing regulations, creating loopholes that can be exploited by illegal entities (Wahyuni & Turisno, 2019). Another challenge is the issue of identifying and verifying illegal online loan providers, who often operate without permits and use false or anonymous data, making law enforcement more difficult. In addition, people's low digital financial awareness and literacy makes people more vulnerable to illegal online lending practices (Kusumaningsih & Yulianingsih, 2023). This is exacerbated by the limited resources and capacity of supervisory institutions, such as the Financial Services Authority (OJK), in carrying out supervision and taking action against the increasing number of perpetrators. Other challenges include coordination and cooperation between government agencies and between countries to handle cross-border cases, which often occur in illegal online lending practices. Thus, efforts to avoid and deal with illegal online loans require a comprehensive and adaptive approach, which not only involves increased regulation and supervision, but also public education and international cooperation.

On the other hand, the regulatory challenges faced in avoiding illegal online lending practices in Indonesia include the low level of digital literacy among the public which is one of the main challenges in dealing with illegal online lending practices. This makes people vulnerable to illegal lending practices (Admiral & Pauck, 2023). Weak monitoring and law enforcement systems for illegal online lending practices are a serious challenge. Efforts are needed to build an effective monitoring and enforcement system to suppress the rise of illegal online loans (Abdullah, 2021). People's consumer behavior is also a factor that influences the rise of illegal online loans. Increasing awareness of financial management and debt management is the key to overcoming this challenge. The rise of online loan-based fraud is also influenced by the increasingly sophisticated world of technology. Therefore, preventive measures and stricter supervision of illegal online lending practices are needed [5].

Indonesian government regulations regarding illegal online loans for the younger generation cover several aspects. Efforts by the government and related institutions to overcome illegal online loans have been made. Several related regulatory aspects have been implemented, namely the Financial Services Authority (OJK) and the Ministry of Communication and Information have made efforts to monitor and enforce the law against illegal online loans. These steps include closing illegal online lending accounts and identifying suspects involved in the illegal practice. Recommendations for establishing an effective monitoring and enforcement system have been put forward, including the establishment of an integrated debtor information system. This step is expected to increase the effectiveness of supervision and enforcement of regulations related to illegal online loans [2]. The government also needs to focus on increasing digital literacy and financial literacy among the younger generation. This is important to reduce the vulnerability of the younger generation to illegal online lending practices (Setiyowati & SM, 2023; Simbolon & Puteri, 2020).

The regulations governing illegal online loans in Indonesia have not been regulated in a

special law (*lex specialis*). Some of the existing regulations only refer to technical regulations issued by the Financial Services Authority (OJK), namely POJK No. 10/POJK.05/2022, which exclusively regulates what are the rights and obligations as well as things that must be adhered to by online loan organizers and users, both funders and recipients (Setiawati et al., 2022; Yuniarti & Rasyid, 2020). In addition, monitoring and law enforcement efforts against illegal online loans are carried out by the OJK, the Ministry of Communication and Information, and other related institutions. These steps include closing illegal online lending accounts and identifying suspects involved in the illegal practice. However, more specific regulations regarding illegal online loans may be found in laws governing the financial sector and consumer protection (Priliasari, 2019).

Supervision of illegal online lending practices in Indonesia can be carried out through the Financial Services Authority (OJK) monitoring illegal online lending practices through social media platforms and online application stores such as Instagram and Playstore. OJK Regulation no. 10/POJK.05/2022 exclusively regulates the rights and obligations of online loan organizers and users, both funders and recipients. This includes efforts to monitor illegal online lending practices (Yusup, 2022). People who are caught in illegal online loans can complain about this practice to the OJK. OJK is an institution authorized by law to regulate, supervise, examine and investigate the financial services sector. However, supervision of illegal online lending practices is still faced with various challenges, including low levels of digital literacy and the technology used by illegal online lending perpetrators to deceive the public.

## CONCLUSION

Research findings Illegal online lending activities in Indonesia have had a substantial detrimental impact, particularly among the millennial age. The primary issues that must be addressed include low levels of digital literacy, debt bondage, financial risks, and the impact on the image of legal loans. Government rules have been implemented, but they still face numerous challenges, including weak oversight and enforcement systems. Future study should focus on increasing financial and digital awareness among millennials, as well as implementing preventive measures and better regulation of unlawful internet lending operations. Regulations must be strengthened, financial and digital literacy increased, and cross-sector cooperation fostered. As a result, it may foster a healthy, secure, and inclusive digital financial environment for all levels of society.

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