

## LEGAL IMPLICATIONS OF CONSUMER PROTECTION IN ISLAMIC FINANCIAL PRODUCTS FOR INDONESIA'S ECONOMIC STABILITY: A LITERATURE REVIEW

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### Abstract

This study aims to analyse the legal implications of consumer protection in Islamic financial products on Indonesia's economic stability through a literature review. Regulations such as Law No. 8 of 1999 on Consumer Protection and Law No. 21 of 2008 on Islamic Banking have provided a strong legal foundation to protect consumer rights, encourage transparency, and increase public confidence in the Islamic financial industry. The implementation of these regulations is also supported by the role of the Financial Services Authority in supervision, education, and dispute resolution between consumers and financial services businesses. The study results show that effective legal protection of Islamic financial products contributes significantly to economic stability, among others through increasing financial inclusion, strengthening public confidence, and encouraging real sector growth with the principles of fairness and transparency. However, challenges are still encountered, such as low Islamic financial literacy in the community and limited human resources and adequate information technology.

**Keywords:** Implications, Consumer Protection Law, Islamic Financial Products, Indonesian Economic Stability, Literature Review.

### Introduction

The development of the Islamic finance industry in Indonesia has shown a very positive trend in recent decades. This is reflected in the growth of various Islamic financial institutions, both banks and non-banks, which are increasingly in demand by the public. Islamic banks, Islamic insurance, Islamic pawnshops, and Baitul Maal wat Tamwil (BMT) have become an important part of the national financial ecosystem based on sharia principles. The existence of these institutions not only offers an alternative financial system that is in accordance with Islamic values, but also contributes to efforts to empower the people's economy and improve the welfare of the community (Hosen & Muhamad, 2022).

The legal basis governing the operations of Islamic financial institutions in Indonesia has continued to improve since its inception. Starting from the recognition of the profit-sharing principle in Law No. 7 of 1992, the regulation of Islamic banking was further clarified with the presence of Law No. 10 of 1998 and culminated in Law No. 21 of 2008 concerning Islamic Banking (Lubis & Siregar, 2024). This regulation provides legal certainty while encouraging the growth of the Islamic finance industry significantly. In addition, supervision and regulation conducted by the Financial Services

Authority (OJK), Bank Indonesia, and the National Sharia Council of the Indonesian Ulama Council (DSN-MUI) strengthen governance and compliance with sharia principles (Fauzi & Ramli, 2021).

The Islamic financial system in Indonesia comes as a response to the needs of the community, especially Muslims, who avoid usury practices and prioritise justice in financial transactions. The main principle in Islamic finance is a fair and transparent contract between the provider of capital and the user of capital. Thus, Islamic finance is not only profit-orientated, but also mutual benefit and balanced risk distribution. This is the main difference with the conventional interest-based financial system (Wulandari & Subroto, 2021).

The growth of Islamic financial institutions in Indonesia is also fuelled by the increasing public awareness of the importance of financial principles in accordance with Islamic teachings. However, behind this growth, there are major challenges in the form of low Islamic financial literacy among the public, immature infrastructure, and limited innovative products and services. In addition, the majority of the workforce in Islamic financial institutions still have a background in conventional economics, so the process of adjusting to the acceleration of Islamic law is slow (Sari & Nugroho, 2024).

Consumer protection is one of the crucial aspects in the development of Islamic financial products. Strong and effective regulations are needed to ensure that consumer rights are protected, both in terms of information transparency, fairness in contracts, and dispute resolution. The government through OJK and related institutions continues to improve the legal framework for consumer protection in order to be able to answer the challenges and dynamics of the growing Islamic financial industry. This protection is not only important to maintain public trust, but also to create national economic stability (Hasan & Ahmad, 2023).

Indonesia's economic stability is strongly influenced by the existence of a sound and inclusive financial system. Islamic finance, with its prudential principles and prohibition of speculation, is believed to be able to contribute to economic resilience, especially in the face of global crisis turmoil. The profit-sharing system and real asset-based financing are advantages that can reduce systemic risk and increase the resilience of the national financial sector. Therefore, strengthening consumer protection regulations in Islamic financial products is a strategic agenda in maintaining economic stability (Yuliani, 2023).

In addition to the legal aspects, the effectiveness of consumer protection is also largely determined by implementation in the field. Harmonisation between national regulations and sharia fatwas, as well as synergy between supervisory institutions, are key in creating a comprehensive consumer protection system. Challenges in law enforcement, such as the complex legislative process and harmonisation between sharia principles and positive law provisions, must be overcome for optimal consumer protection (Anonymous, 2025a).

Amid the rapid growth of the Islamic finance industry, product and service innovation is an inevitable need. Regulations must be able to accommodate technological developments and market needs without ignoring sharia principles and consumer protection. The government and relevant authorities are encouraged to continue to update regulations so that the Islamic finance industry remains relevant and competitive in the digital era (Anonymous, 2023c).

Research on the legal implications of consumer protection in Islamic financial products for Indonesia's economic stability is very relevant to provide a comprehensive overview of the role of regulation in maintaining the integrity of the Islamic financial industry. Through a literature review, this research is expected to identify opportunities and challenges faced, as well as provide strategic recommendations for strengthening the legal framework and consumer protection in the Islamic financial sector.

Thus, the legal protection of consumers in Islamic financial products is not only an urgent need, but also the main foundation for the sustainable growth of the Islamic financial industry and national economic stability. Strengthening regulations, increasing literacy, and product innovation are the main keys in realising an inclusive, fair and highly competitive Islamic financial system in Indonesia.

## **Research Methods**

This research uses a qualitative method with a normative juridical approach that focuses on analysing primary legal documents such as Law No. 21/2008 on Islamic Banking, Law No. 8/1999 on Consumer Protection, and POJK No. 5/2024, as well as secondary literature from OJK publications, Bank Indonesia, and academic journals. Data were analysed through thematic techniques to identify patterns of relationships between consumer protection regulations, Islamic banking practices, and their impact on economic stability, taking into account the principle of *maqāṣid al-syarī'ah* (universal good) as an evaluation framework (Tranfield et al., 2003).

## **Results and Discussion**

### **The Relationship Between Consumer Protection Regulation and Islamic Finance Practices**

The relationship between consumer protection regulation and Islamic financial practices in Indonesia is symbiotic, with the principle of *maqāṣid al-sharī'ah* (universal good) as the philosophical foundation that unites the legal and ethical aspects of Islamic business. The concepts of *ḥifẓ al-māl* (safeguarding wealth) and *al-'adl* (justice) require transparency in contracts and balanced risk distribution, in line with the spirit of Law No. 8/1999 on Consumer Protection. Regulations such as Law No. 21/2008 on Islamic Banking and POJK No. 5/2024 stipulate the obligation of Islamic financial institutions to provide complete product information, although implementation is still constrained by non-compliance in the preparation of standard contracts (Anonymous, 2023b).

Information asymmetry is a major challenge, with studies showing that 68% of Islamic customers do not understand the risk clause in *mudharabah* or *murabahah* contracts, contrary to Article 4 of Law No. 8/1999. The profit-sharing mechanism in Islamic financing reduces the risk of *moral hazard*, reflected in Islamic banks' NPLs which are 1.8% lower than conventional banks according to OJK 2023 data. The role of DSN-MUI through fatwas such as No. 07/2000 on *murabahah* strengthens profit margin transparency, reducing price disputes by 22% in the last five years (Vanesha Marcelliana, 2023).

Islamic financial inclusion was boosted by POJK No. 76/2016 regulation, increasing MSME access to Islamic financing by 34% through *risk-sharing* mechanisms. Dispute resolution relies more on sharia mediation through BPSK (87% of cases) than litigation, reflecting the effectiveness of the principle of *ṣulḥ* (peace). However, the Islamic financial literacy index of only 12.3% (OJK 2024) hinders the optimisation of consumer protection, despite an adequate legal framework (Anonymous, 2023a).

Financial technology is a crucial solution, with the implementation of *big data* OJK Syariah detected 154 contract violations by 2023, ensuring compliance with the principle of *gharar*. Macroeconomic impact was seen from the contribution of real asset-based financing in reducing inflation by 0.7% in East Java in 2024. However, analysis of 120 *murabahah* contracts revealed 45% did not include a *force majeure* clause in accordance with Fatwa DSN-MUI No. 47/2004, triggering 18 default cases during the pandemic (Setiawan & Effendi, 2021).

The gap between regulation and implementation is reflected in only 60% of Islamic banks meeting OJK's 2023 quarterly sharia audit standard. Educational programmes such as the *Sharia Financial Literacy Bootcamp* have increased understanding of consumer rights by 29% among millennials, demonstrating the importance of literacy in maximising regulatory effectiveness. Global challenges arise from Indonesia's 40% lag in meeting AAOIFI *full disclosure* standards, demanding harmonisation of local and international regulations (Lu'luul Karimah, 2024).

The synergy between national law and Shariah principles creates a unique ecosystem, but requires the collaboration of regulators, academia and industry to address policy overlaps, improve human resource capacity and integrate technology. Lessons learnt from the *murabahah* case and the dynamics of consumer literacy underscore the need for stricter contractual oversight and structured education campaigns. Ultimately, the balance between sharia compliance, product innovation and consumer legal protection is key to Indonesia's continued economic stability amidst the complexity of the global financial system.

## The Impact of the Relationship Between Consumer Protection Regulation and Islamic Financial Practices on Economic Stability

The relationship between consumer protection regulation and Islamic financial practices creates an important foundation for Indonesia's economic stability. The Islamic financial system based on *maqāṣid al-sharī'ah* (universal good) principles emphasises fairness and transparency, in line with the objectives of Law No. 8/1999 on Consumer Protection. This integration of sharia values with the national legal framework ensures a balanced distribution of risk, reducing potential instability due to speculative practices or information asymmetry (Abduh & Omar, 2021).

Regulations such as Law No. 21/2008 on Islamic Banking and POJK No. 5/2024 require Islamic financial institutions to provide complete product information, including profit sharing mechanisms and dispute resolution. This transparency increases customer trust, which is reflected in the 14.2% growth in Islamic banking assets by 2023. This trust is key in maintaining financial system stability, especially during a crisis (Wahyuni & Hidayat, 2023).

The Financial Services Authority (OJK) plays a crucial role in overseeing Islamic financial institutions' compliance with consumer protection principles. Through POJK No. 76/2016, OJK encourages sharia digital service innovations that increase MSME access to financing by 34%, while strengthening financial inclusion. This *risk-sharing-based* financing reduces reliance on interest-bearing debt, which is vulnerable to market fluctuations (Zain & Abdullah, 2023).

The profit-sharing mechanism (*mudharabah/musyarakah*) in Islamic finance is proven to reduce the risk of *moral hazard*. OJK data (2023) shows that the NPL (non-performing loans) of Islamic banks is only 1.8%, lower than conventional banks (3.6%). Islamic social finance instruments such as zakat and productive waqf also strengthen economic stability. During the COVID-19 pandemic, the redistribution of zakat funds increased the purchasing power of the poor by 12%, easing socio-economic pressures. This shows how Islamic justice principles and wealth redistribution regulations can create economic resilience (Bank Indonesia, 2022).

However, low Islamic financial literacy (12.3% by 2024) is a major challenge. Despite adequate regulations, 68% of customers still do not understand the risk clauses in *murabaha* contracts, hampering the optimisation of consumer protection. Educational programmes such as OJK's *Sharia Financial Literacy Bootcamp* have increased understanding of consumer rights by 29%, but need to be expanded to rural areas (Anonymous., 2024).

Financial technology is a solution to mitigate non-compliance. The use of *big data* by OJK Syariah successfully detected 154 contract violations in 2023, mainly related to *gharar* (uncertainty) clauses. This innovation strengthens supervision of non-transparent contract practices, which have the potential to trigger disputes (Anonymous, 2025b).

During the pandemic, *murabahah*-based Islamic financing and *qard al-hasan* (interest-free loans) provided a buffer for MSMEs. Financing restructuring worth IDR 24.5 trillion (2020-2022) mitigated the impact of the recession on the small business sector. This mechanism demonstrates the flexibility of the Islamic system in responding to crises, while maintaining microeconomic stability (Anonymous, 2025a).

Nevertheless, the implementation of the regulation still faces obstacles. Only 60 per cent of Islamic banks meet OJK's quarterly sharia audit standards (2023), indicating the need to strengthen administrative sanctions. Harmonisation between DSN-MUI fatwas and national regulations also needs to be improved to avoid overlapping policies. Global challenges such as AAOIFI (Accounting and Auditing for Islamic Financial Institutions) standards also affect stability. Only 40 per cent of Indonesian Islamic banks meet international *full disclosure* standards, potentially reducing foreign investor confidence. Convergence of local and global regulations is needed to improve competitiveness (Kusuma & Herwany., 2022)

Collaboration between regulators, academics and industry is key to overcoming the implementation gap. This synergy is reflected in the issuance of Islamic sukuk that fund infrastructure projects, creating a multiplier effect for economic growth. Technology support and quality human resources are also vital to ensure compliance with sharia principles and consumer law (Mas Rara Tri Retno Herryani., 2023)

Thus, the symbiotic relationship between consumer protection regulations and Islamic financial practices not only ensures transactional fairness, but also builds a resilient financial system. Strengthening literacy, regulatory harmonisation and technological innovation will strengthen the contribution of Islamic finance to Indonesia's economic stability amid global uncertainty.

## Conclusion

The legal implications of consumer protection in Islamic financial products are very important to maintain customer trust and loyalty to the Islamic banking industry in Indonesia. Regulations such as Law No. 8 of 1999 on Consumer Protection and Law No. 21 of 2008 on Islamic Banking, as well as strengthening through POJK No. 5 of 2024, have provided a strong legal basis for consumer protection, promoting transparency, fairness, and customer data security in every Islamic financial transaction. Consistent implementation of these regulations not only protects consumer rights, but also increases the integrity and competitiveness of Islamic financial institutions amid the dynamics of the national and global economy.

The impact of effective implementation of consumer protection law on Islamic finance practices is proven to strengthen Indonesia's economic stability. Optimised protection enhances public confidence, expands financial inclusion, and promotes real sector growth through fair and transparent financing. In addition, strict supervision and efficient complaint mechanisms foster a banking ecosystem that is more stable,

inclusive, and responsive to global challenges and domestic needs. This also strengthens the contribution of Islamic finance in supporting sustainable economic development and alleviating socio-economic inequality.

However, challenges remain, such as low Islamic financial literacy, limited human resources, and uneven technology adaptation. Therefore, continuous efforts from all stakeholders-including regulators, industry, and the public-are needed to improve education, invest in information technology, and strengthen governance. Thus, consumer legal protection in Islamic financial products can optimally contribute to Indonesia's economic stability and strengthen the position of Islamic finance at the national and global levels.

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