

CHAPTER II

LITERATURE REVIEW

A. Conceptual Framework

With regard to the title of the study, the author would explain several meanings about the terms used in this thesis. It becomes important in uniting the perceptions of the terms used so that it does not cause a contradiction in an understanding of inner terms this research. The term that the author wants to explain is the meaning as follows:

1. Overview of Fintech

Fintech wasn't really a concept in 1990 Fintech was the original name of the Financial Services Technology Consortium, a project initiated by Citicorp, a predecessor to today's Citigroup.¹⁶ Time changes word of Fintech is now a short term for financial technology, Fintech is as an innovative technology in the financial world that aims to revolutionize the financial world and competing with the conventional financial industry.

Fintech has evolved and there is 3 (three) periods where the evolvement of Fintech explain:¹⁷

1. The first period occurred in the period 1866-1967, during which this period the financial and technological sectors were first combined to expand the reach of financial services. During this period, financial infrastructure and technology were built for the first time to facilitate financial services, such as the construction of Transatlantic Cable infrastructure, telex (teleprinter networks that are similar to telephone networks and can be used to send letters) and Fedwire (Central Bank's Real Time Gross Settlement System / RTGS used in America).

2. The period 1967-2008 is the second period which is called the Fintech 2.0 era. This year is a year of transition from the era of analog

¹⁶ Marc Hochstein, "*FinTech (the Word, That Is) Evolves*", <https://www.americanbanker.com/opinion/fintech-the-word-that-is-evolves>, accessed on 12-11-2019

¹⁷ Otoritas Jasa Keuangan, *Kajian Perlindungan Konsumen Sektor Jasa Keuangan: Perlindungan Konsumen Pada Fintech*, (Jakarta : Departemen Perlindungan Konsumen OJK, 2017), pg. 9-10.

to digital technology. This period is the most important financial innovation where there is an increase in the use of financial products and services combined with the use of technology that supports it.

Financial innovations built in this era more or less affect the behavior of financial consumers, especially by reducing the activities of financial consumers to visit financial service institutions. Some financial innovations contained in this period were Automatic Teller Machines (ATMs), SWIFT (to facilitate overseas transfers), cellular telephones, and internet banking usage in line with the increasing global internet penetration in this period. The development and increase in the use of financial services with technological innovation in this era was dominated by traditional financial service institutions.

3. From 2008 to the present, is the third period of Fintech's development. Based on Douglas W. Arner, this period is divided into two Fintech eras, namely 3.0 and 3.5. The increase in the use of financial services in this era increased very sharply due to an increase in the number of smartphone usage and supported by financial product and service innovations that made it easier for financial consumers to use financial products and / or services. In this era, consumer dependence on digital technology is very high. Therefore, in this period, there was a surge in the number of startups in the financial services sector that utilize digital technology to provide services more quickly, practically and easily for consumers. There are also a number of startups around the world that operate in collaboration with traditional financial service institutions, such as conventional banks. The increasing use of Fintech at this time can be seen from the increasing number of start-up companies and traditional financial service institutions competing in developing mobile applications and websites that can accommodate the needs of financial consumers without requiring consumers to travel only to use or buy financial products and services.

There is varies types of fintech in a market, the major categories in financial technology are¹⁸:

1. Lending: many fintech companies offering lending money options without going through bank or credit union with their platform people could lend money everywhere and anywhere they want.
2. International money transfer: conventional money transfer could have taken up days in process and time consuming some fintech company could have only taken 8 seconds in the process, it is direct to a receiver without any intermediaries and cost less.
3. Personal Finance: people able to have finance consultation about their investing, borrowing, retirement, lending, budgeting, saving, and forecasting. Where in the conventional way people would need spreadsheets and personal arranging time to meet a personal finance advisor but now through smartphone or another device people could have easy access anytime they want.
4. Equity financing: a new start-up company able to raise money to find investor and investor able to invest their money, its easy way for anyone to able to raise capital gain and meet anyone in platform available in fintech.
5. Insurance : form of insurance as easy and available to download in an app through their smartphone mobile.

In Bank Indonesia Regulation No.19 / 12 / PBI / 2017 concerning Implementation of Financial Technology” the definition used by BI regarding fintech to its categories and criteria has been confirmed.

Definition of Financial Technology / Fintech

Article 1: Financial Technology is the use of technology in a financial system that produces new products, services, technology and /

¹⁸ Courtney Gakman, “Understanding FinTech Categories”, <https://ianmartin.com/understanding-fintech-categories/>, access on 22 November 2019

or business models and can have an impact on monetary stability, financial system stability, and / or the efficiency, smoothness, security and reliability of payment systems.

Implementation of Financial Technology / Fintech category

Article 3 paragraph 1:

1. Payment system;
2. Market supporters;
3. Investment management and risk management;
4. Loans, financing and capital supply; and
5. Other financial services.

Henri Arslanian, Adjunct Associate Professor define Fintech is the innovative use of technology in the design and delivery of financial services and it's transforming the banking world as we have known it. Things from Artificial Intelligence, Peer-to-Peer Lending, Big Data, Blockchain, Crowdfunding, Digital Payments, and Robo Advisors. Henri Arslanian keynote speaker globally on the topic of FinTech.” Fintech entrepreneur Brett King explains that what happening the world is something changing, the world is digitalizing because we’re seeking low friction and immediacy. Human wants immediate responses and stronger commerce connections that can scale up more rapidly. These are the system that is changing globally, so within that framework, you cant expect banking and financial services to stay the same and it has been because ultimately has shifted.¹⁹

On June 17, 2019, the Executive Board of the International Monetary Fund (IMF) discussed a paper prepared jointly with World Bank Group (WBG) staff reviewing country regional fintech experiences as a follow up to the Bali Fintech Agenda. Fintech is increasingly integrated into the World Bank’s operations, country policy dialogues, global knowledge activities, and diagnostic work. More broadly, the fintech work is closely linked to the World Bank’s

¹⁹ Henri Arslanian, “How FinTech is Shaping the Future of Banking”, <https://www.youtube.com/watch?v=pPkNtN8G7q8&t=360s>, access on October 21

broader agenda on disruptive technologies and the digital economy. The World Bank undertakes global and regional studies on fintech trends and thematic analytical reports, and directly supports country authorities in adopting fintech through technical assistance and lending projects.²⁰

The World Bank is also increasingly incorporating an analysis of fintech developments in Financial Sector Assessment Program (e.g., India, Indonesia, and Thailand). More broadly, access to digital financial services is seen as pivotal to advance broader development objectives such as improving the efficiency of government services delivery; access to services like water and electricity; strengthening human capital in terms of health, education and work; and addressing cross-cutting priority areas like climate change and gender. World Bank Group activities include:²¹

a. ID for Development: This is a cross-sectoral program to support the development of safe, reliable and efficient ID systems many of which also include specific financial sector applications such as eKYC (e.g., Economic Community of West African States (ECOWAS) countries, Morocco, and Philippines).

b. The Digital Economy for Africa Moonshot aims, by 2030, to digitally connect every individual, business, and government and ensure they thrive in the digital economy.

c. Govtech seeks to intensify usage of digitization to advance public service delivery, reduce corruption, provide user-friendly services to companies, and engage citizens; modernizing core government systems; and creating public data platform for use by government, citizens and the private sector. The World Bank is aiding (e.g., Cote d'Ivoire, Lebanon) in digitizing government-to person (G2P)

²⁰ International Monetary Fund, *Fintech; The Experience So Far*, (Washington. D.C., IMF Policy Papers, 2019). Pg. 12

²¹ International Monetary Fund, *Fintech; The Experience So Far*, (Washington. D.C., IMF Policy Papers, 2019). Pg. 12

payments and payments to Governments (e.g., tax payments, conditional cash transfers).

d. The International Finance Corporation is investing in fintech companies; working with existing banks and clients to help them adopt digital financial services into traditional banking platforms; and working with donors and development partners to accelerate the adoption of fintech and achieve responsible financial inclusion.²²

World Bank Group President Jim Yong Kim said.

“In the past few years, we have seen great strides around the world in connecting people to formal financial services, “Financial inclusion allows people to save for family needs, borrow to support a business, or build a cushion against an emergency. Having access to financial services is a critical step towards reducing both poverty and inequality, and new data on mobile phone ownership and internet access show unprecedented opportunities to use technology to achieve universal financial inclusion.”²³

According to the G20, not everybody is able to have access to the formal financial system, in fact, the G20 (Group of Twenty) as the major economies group in the world stated there are 2,5 billion adults are excluded from the formal financial system. Hoping the unbanked able gain the access of financial services and products from the influence of FinTech on emerging markets and ensuring the social impact that can be generated through financial technology a way of more to democratizing finance.²⁴ Telecoms company has supplemented the cash economy to the digital fund by mobile access to the digital fund, as changes led by telecoms companies not the conventional

²² International Monetary Fund, *Fintech; The Experience So Far*, (Washington. D.C., IMF Policy Papers, 2019). Pg. 13

²³ PRESS RELEASE NO: 2018/130/DEC, “Financial Inclusion on the Rise, But Gaps Remain, Global Findex Database Shows”, <https://www.worldbank.org/en/news/press-release/2018/04/19/financial-inclusion-on-the-rise-but-gaps-remain-global-findex-database-shows>, access on 30 October 2019

²⁴ Christi, Sussane and Jonas, Barberis. *The fintech book*, (Hoboken : Wiley, 2016) Pg. 65

banks. Fintech start-up could manage and be the fulfillment of those that lack of access to financial services, as helping the unbanked to overcome discrimination in the provision of financial services while decreasing friction and transaction costs for savings and payments.

In 2014 there is 2 billion of people are unbanked by working to reach out and providing people with technology and devices.²⁵ Believing that fintech able to help these people through their financial situation, In conclusion, Fintech encompasses a new wave of Industry changing the way people pay, invest send money, getting insurance borrow, lend, and many more with the innovation continue to flourish.

2. Overview of OJK Otoritas Jasa Keuangan (Financial Services Authority)

The Financial Services Authority (OJK) is an independent institution free from interference from other parties that has the functions, duties and authority to regulate, supervise, examine and investigate all activities in the financial services sector, from the banking sector, capital market and financial services sector. non-banks such as Insurance, Pension Funds, Financing Institutions, Fintech and other Financial Services Institutions as referred to in Law Number 21 of 2011 concerning the Financial Services Authority.

OJK was formed based on Law No. 21 of 2011 concerning the Financial Services Authority which was inaugurated on July 16, 2012. There are five steps OJK has gone through before finally, the OJK carries out its entire set of tasks as a whole, including:

1. August 15, 2012, the OJK Phase I Transition Team was formed to assist the OJK Board of Commissioners in carrying out their duties.

²⁵ Asli Demirgüç-Kunt, Leora Klapper, Dorothe Singer, Saniya Ansar Jake Hess. Global index data base, (United States; World Bank group. 2017), Pg. 35.

2. December 31, 2012, the FSA(Financial Service Authority) effectively operates with the scope of the task of Supervision of the Capital Market and Non-Bank Financial Industry.
3. March 18, 2013, the OJK Phase II Transition Team was formed, tasked with assisting the OJK Board of Commissioners, which carried out the transfer of functions, duties and authority of Banking Regulation and Supervision from BI.
4. December 31, 2013, the FSA fully carry out its duties in overseeing the performance of the Banking.
5. January 1, 2015, OJK began to expand its supervision to the Non-Bank industry, namely Regulation and Oversight of Microfinance Institutions (LKM).

Referring to Article 1 number 1 jo Article 2 paragraph (1) of Law no. 21 of 2011 concerning the Financial Services Authority ("OJK Law"), OJK as an independent institution means that the institution is tasked with regulating and overseeing financial institutions free from interference from any party except for matters explicitly stated in the OJK Law. The hope from Indonesia government is OJK able to support the operation of financial services as a safeguard for national interest, which include control human resources, and ownership management, in the financial services sector while still considering positive aspects.

OJK Vision: To become a trustworthy financial service industry supervisory institution, protect the interests of consumers and the community and be able to turn the financial services industry into a

pillar of the national economy that is globally competitive and can advance public welfare.²⁶

OJK's mission: Realizing the implementation of all activities in the financial services sector in an orderly, fair, transparent and accountable manner; Creating a financial system that is growing in a sustainable and stable manner; Protect the interests of consumers and society. OJK Functions and Duties²⁷

OJK's Function: OJK operates an integrated system of regulation, supervision, inspection and investigation of all activities in the financial services sector such as the banking sector, capital market and non-bank sectors. In addition, OJK is also a decision maker regarding financial development and progress to consumer protection.²⁸

OJK's Duties : OJK has the duty to regulate and supervise financial service activities in the banking sector, capital market and IKNB. Each financial sector carries out a series of tasks that are almost all fairly the same. Specifically, the task is to draw up regulations, guidance, supervision, law enforcement that has been made and so on. Other additional tasks, usually depending on the decision given by the Board of Commissioners.²⁹

³⁰PIDEK (Bahasa; PIDEK Pengembangan Inovasi Digital Ekonomi dan Keuangan) is formed by OJK as Digital Economic and Financial Innovation Development Team to study and analyzing regulations and development strategies. Furthermore, OJK formed two new work units related to Fintech, namely the Digital Financial

²⁶ Otoritas Jasa Keuangan, "Visi dan Misi: OJK", <https://www.ojk.go.id/id/tentang-ojk/Pages/Visi-Misi.aspx>, access on 2 November 2019

²⁷ Otoritas Jasa Keuangan, "Visi dan Misi: OJK", <https://www.ojk.go.id/id/tentang-ojk/Pages/Visi-Misi.aspx>, access on 2 November 2019

²⁸ Otoritas Jasa Keuangan. "Tujuan dan Fungsi: OJK.", <https://www.ojk.go.id/id/tentang-ojk/Pages/Tugas-dan-Fungsi.aspx> access on 2 November 2019

²⁹ Otoritas Jasa Keuangan. "Tujuan dan Fungsi: OJK.", <https://www.ojk.go.id/id/tentang-ojk/Pages/Tugas-dan-Fungsi.aspx> access on 2 November 2019

³⁰ Otoritas Jasa Keuangan, Kajian Perlindungan Konsumen Sektor Jasa Keuangan: Perlindungan Konsumen Pada Fintech, (Jakarta : Departemen Perlindungan Konsumen OJK, 2017). Pg. 48

Innovation Group and Microfinance and the Directorate of Fintech Regulation, Licensing and Supervision.

A forum for the development of the Fintech industry direction, is formed by OJK as the Fintech Advisory Forum. The Fintech Expert Forum consists of individuals who are considered competent and expert in the field of information technology and dynamics in the field of digital innovation. This forum will facilitate and ensure coordination between agencies, ministries and related parties with Fintech start-up business running smoothly, consistently and constructively.³¹

The tasks of the Fintech Expert Forum include:

- i. Discuss issues related to developing Fintech and the direction of future development of the Fintech industry;
- ii. Facilitating coordination between agencies and ministries, and other relevant parties to ensure that the potential of Fintech can be optimized in its complex business environment;
- iii. Ensuring the participation and communication between relevant ministries / institutions and other related parties and the perpetrators of the Fintech start-up are consistent and constructive.³²

3. Overview of Peer-to-Peer Lending

Peer to Peer Lending is a system where there is a platform available and provided by FSP (Financial Service Provider) of Peer-to-Peer Lending which removes the intermediary such bank,

³¹ Otoritas Jas Keuangan, Kajian Perlindungan Konsumen Sektor Jasa Keuangan: Perlindungan Konsumen Pada Fintech, (Jakarta : Departemen Perlindungan Konsumen OJK, 2017). Pg. 49

³² Otoritas Jas Keuangan, Kajian Perlindungan Konsumen Sektor Jasa Keuangan: Perlindungan Konsumen Pada Fintech, (Jakarta : Departemen Perlindungan Konsumen OJK, 2017). Pg. 49

individuals or institutional body able to request a loan as borrower which allow the other individual to invest as vice versa. It is a market place for as many as borrower and lenders could meet. “According to Regulation of Financial Services Authority Number 77/POJK.01/2016 Article 1 (3) is Information Technology Based Money Lending and Borrowing Services is the provision of financial services to bring together lenders and loan recipients in the context of entering into loan agreements to borrow in rupiah directly through an electronic system using the internet network.”

For some people with extra money, Peer-To-Peer Lending is a way to invest as it providing fixed income greater than what other traditional investment yields. In a comparison of another way to invest the rewarding prize is unpredictable, on the other hand, borrowers can apply for a loan more efficiently and quickly. Because it's mostly online and digital, transactions are more convenient for both parties.

Peer-to-Peer Lending process could be done in practical way, its very hands-on users could do this straight forward access through their smart phone application or website. Below would generally describe the process of Peer-to-Peer Lending:

1. Borrower who has completed their online loan application and submit the data all require to the Peer-to-Peer Lending platform
2. The application submitted would be assess by the platform to determine credit rating and risk of borrower as the applicant.
3. As the loan application is process and approval is given, investor would be able to review this and the applicant receives the available options from the investors based on his credit rating and assigned interest rates.
4. The borrower able to evaluate the options suggestion and pick one itself desire

5. As loan money is received the borrower shall pay the loan periodically based on agreement made by both party with the interest rates.³³

Based on OJK data on July 2019 there is 127 Peer to Peer Lending company in Indonesia, with an accumulated total number of lenders is 518.640 entities and 11.415.849 entities with total number of transaction 39.804.357. Total loan accumulation has to reach Rp. 49.794.019 billion. With the maximum limit for the total lending of funds as referred to in the regulation 77/POJK.01/2016 P2P is stipulated Rp. 2,000,000,000.00 (two billion rupiah). OJK may conduct a review of the boundary maximum total loan funding³⁴

a) FSP(Financial Servicer Provider) of Peer-to-Peer Lending

financial service provider means a person engaged in the business of providing financial services in terms of authorisation issued or registration granted by a financial sector regulator³⁵. FSP for Peer-to-Peer Lending on OJK regulation No 77/POJK.01/2016 would be explained in article 2 and 3

Article 2

- (1) The FSP is declared as Other Financial Services Institution.
- (2) Operator legal entities in the form of:
 - a. limited liability company; or
 - b. cooperative.

Article 3

- (1) FSP in the form of limited liability companies as referred to in Article 2 paragraph (2) letter a, can be established and owned by:

³³ Duwitmu, "Panduan Fintech P2P Peer To Peer Lending OJK Indonesia", <https://duwitmu.com/kta/fintech-p2p-lending-indonesia/>. Access on 11 Desember 2019

³⁴ Otoritas Jasa Keuangan, "Statistik Fintech Lending Periode Juli", <https://www.ojk.go.id/id/kanal/iknb/data-dan-statistik/fintech/Pages/Statistik-Fintech-Lending-Periode-Juli-2019.aspx>, access on 01 September 2019

³⁵ Law insider, "Definition of Financial service Provider", <https://www.lawinsider.com/dictionary/financial-service-provider>, access on 01 November 2019

- a. Indonesian citizens and/or Indonesian legal entities;
and/or
- b. foreign citizens and/or foreign legal entities.

- (2) The ownership of the Operator's shares by foreign citizens and/or foreign legal entities as referred to in paragraph (1) letter b, either directly or indirectly is at most 85% (eighty-five percent).

Article 4:

- (1) Operators in the form of limited liability companies must have paid-up capital of at least Rp1,000,000,000.00 (one billion rupiah) at the time of registration.
- (2) Operators in the form of cooperative legal entities are required to have their own capital of at least Rp1,000,000,000.00 (one billion rupiah) at the time of registration.
- (3) The Operator is required to have paid-up capital as referred to in paragraph (1) or own capital as referred to in paragraph (2) of at least Rp2,500,000,000.00 (two billion five hundred million rupiahs) when submitting a permit application. er-to-Peer Lending;

Licensing and registering are important as being part of authorized FSP of Peer-to-Peer Lending for unauthorized Peer-to-Peer lending is consider as illegal Peer-to-Peer Lending and the operation shall be stop in immediate. License and registration and it is regulated with OJK regulation No 77/POJK.01/2016 The registration requirement, written in Article 8:

- (1) FSP that will carry out Information Technology-Based Money Lending and Borrowing Services submit applications for registration to OJK.
- (2) FSP that have carried out Information Technology-Based Money Lending and Borrowing Services activities before this OJK regulation is enacted, must submit a request for registration to OJK no later than 6 (six) months after this OJK regulation comes into force.
- (3) Application for registration by the Operator as referred to in paragraph (1) and paragraph (2), shall be submitted by the Board of Directors to the Chief Executive of the Insurance Supervisory, Pension Funds, Financing Institutions, and Other Financial Services Institutions using Form 1 as listed in the Appendix which is an inseparable part of this OJK regulation, and is accompanied by a document that at least contains:
 - a. deed of incorporation of a legal entity including the articles of association and amendments (if any) that have been approved / approved by the competent

- agency or notified to the competent agency in accordance with statutory provisions;
- b. proof of personal identification and curriculum vitae, accompanied by a recent 4x6 cm color photograph of:
 1. shareholders who own shares of at least 20% (twenty percent);
 2. members of the Board of Directors; and
 3. Commissioners members;
 - c. photocopy of principal number of corporate taxpayers;
 - d. Certificate of Domicile of the Operator from the competent agency;
 - e. evidence of operational readiness for business activities in the form of documents related to the Electronic System used by the FSP and data on operational activities.
 - f. proof of fulfillment of capital requirements as referred to in Article 4 paragraph (1) or Article 4 paragraph (2);
 - g. statement letter of settlement plan related to the rights and obligations of the User in the event that the licensing of the Operator is not approved by the OJK.
- (4) Approval for an application for registration is made within a maximum period of 10 (ten) working days from the receipt of the application for registration in accordance with the requirements in these OJK regulations.
 - (5) OJK approved the approval of the registration of the FSP by providing a letter of approval.

Article 9

- (1) Registered operators are required to submit periodic reports every 3 (three) months for periods ending March 31, June 30, September 30, and December 31 to OJK with information that at least contains:
 - a. number of Lenders and Loan Recipients;
 - b. loan quality received by the Loan Recipient following the basis for evaluating loan quality; and
 - c. activities that have been carried out after being registered with OJK.
- (2) Periodic reports every 3 (three) months as referred to in paragraph (1) shall be submitted to OJK no later than 10 (ten) working days from the due date of the reporting date.

Article 10

- (1) The Operator which has been registered with OJK, is required to submit a license application as Operator within a maximum period of 1 (one) year from the date it is registered at OJK.
- (2) In the event that the period as referred to in paragraph (1) has expired, the FSP has obtained a registered proof of letter and did not submit the permit application or did not meet the licensing requirements, the FSP registered proof as referred to in Article 8 paragraph (5) declared null and void.
- (3) Operators whose registration documents have been declared null and void as referred to in paragraph (2) may no longer submit applications for registration to OJK.
- (4) The Operator for which the certificate of registration has been declared null and void as referred to in paragraph (2), must settle the User's rights and obligations in accordance with the statement of plan for settlement.
- (5) FSP that are still registered and declare unable to continue their operational activities, must submit a request to the OJK accompanied by reasons of incompetence, and a plan to resolve user rights and obligations.

Article 11 as written requirement for licensing and registration:

- (1) Application for Licensing of the FSP as referred to in Article 10 paragraph (1) shall be submitted by the Board of Directors to the Executive Chief of the Insurance Supervisory, Pension Funds, Financing Institutions, and Other Financial Services Institutions using Form 2 as listed in the Appendix which is an integral part of these OJK regulations and are accompanied by at least:
 - a. deed of incorporation of a legal entity including its articles of association and amendments (if any) that have been approved/approved by the competent agency or notified to the competent authority, which at least contains:
 1. name and place of domicile;
 2. business activities as an Information Technology-Based Lending and Borrowing Company;
 3. capital;
 4. ownership;
 5. authority, responsibilities, terms of office of Directors, and Commissioners; and
 6. changes to the latest articles of association (if any) accompanied by evidence of endorsement, approval and / or letter of receipt of notification from the competent authority;
 - b. ownership list, in the form of:

1. list of shareholders and details of the amount of each share ownership for the Operator in the form of a limited liability company; or
2. a list of members including the total principal savings and mandatory savings for the Operator in the form of a cooperative legal entity;

c. shareholder data:

1. for individuals, enclosed with:
 - a) photocopy of identification in the form of a valid resident card or passport for foreign nationals;
 - b) photocopy of tax identification number;
 - c) curriculum vitae, accompanied by a recent 4x6 cm color photograph; and
 - d) a stamped statement stating:
 - 1) the Operator's capital deposit does not originate from loans;
 - 2) FSP capital deposits do not originate from money laundering and financial crimes;
 - 3) not recorded in the list of bad loans;
 - 4) have never been convicted of a criminal offense in the field of financial and / or economic services business based on a court decision that has had permanent legal force in the last 5 (five) years;
 - 5) have never been convicted of a criminal offense based on a court decision that has permanent legal force in the last 5 (five) years;
 - 6) has never been declared bankrupt or was guilty of causing a company / company to go bankrupt based on a court decision that has had permanent legal force in the last 5 (five) years; and
 - 7) has never been a controlling shareholder, a member of a board of directors, or a member of a board of commissioners, a financial service company whose business license has been revoked because of a violation in the last 5 (five) years;
2. For legal entities, enclosing:
 - a) deed of incorporation of a legal entity including the articles of association and the latest amendment (if any), accompanied by evidence of endorsement, approval, or recording from the competent authority;
 - b) statement of directors or equivalent stating that:
 - 1) the Operator's capital deposit does not originate from loans;
 - 2) FSP capital deposits do not originate from money laundering and financial crimes; and
 - 3) not recorded in the congestion credit list;

2. For the central government, accompanied by government regulations concerning the participation of State capital for the establishment of companies;
3. for regional governments, accompanied by regional regulations concerning the inclusion of regional capital for the establishment of companies;
- d. Directors and Commissioners data:
 1. photocopy of identification in the form of a valid resident card or passport for foreign nationals;
 2. curriculum vitae with a recent 4x6 cm color photograph;
 3. photocopy of tax identification number; and
 4. stamped statement letter from each member of the Board of Directors and the Commissioner stating:
 - a) not recorded in the list of bad debts;
 - b) have never been convicted of committed a crime in the field of financial and/or economic services based on a court decision that has had permanent legal force in the last 5 (five) years;
 - c) have never been convicted of a criminal offense based on a court decision that has permanent legal force in the last 5 (five) years;
 - d) has never been declared bankrupt or been found guilty of causing a business entity to be declared bankrupt based on a court decision that has permanent legal force in the last 5 (five) years; and
 - e) has never been a shareholder, director, commissioner of a financial services company whose business license has been revoked due to a violation in the last 5 (five) years;
 - e. photocopy of proof of capital fulfillment which is legalized and is still valid during the permit application process on behalf of one of the commercial banks conducting business activities conventionally and/or based on sharia principles incorporated in Indonesia;
 - f. Organizational structure;
 - g. guidelines/standards for operational procedures related to the implementation of anti-money laundering and prevention of terrorism financing programs;
 - h. work plan for the first 1 (one) year which at least contains:
 1. a description of the business activities to be carried out;
 2. targets and steps taken to realize the intended targets; and
 3. financial statement projections for the next 1 (one) year;
 - i. proof of operational readiness in the form of:

1. proof of ownership or control of the building and office space or service units (outlets), in the form of a photocopy of certificates of ownership, building rights, or usage rights on behalf of the Operator, or building / room lease agreements; and
 2. list of inventory and office equipment;
- j. photocopy of taxpayer principal number on behalf of the FSP;
 - k. statement of settlement plan related to the rights and obligations of the User in the event that the FSP cannot continue the operational activities of the Information Technology Based Money Lending and Borrowing Services; and
1. proof of payment of licensing fees.
- (3) OJK reviews the licensing application submitted by the Operator.
 - (4) OJK gives approval or rejection of licensing applications no later than 20 (twenty) working days from the receipt of the permit application documents in accordance with the requirements in these OJK regulations.
 - (5) An automatic permit application shall be valid if the time period referred to in paragraph (3) is exceeded.

**POJK No. 77/POJK.01/2016 Alur Proses Pendaftaran dan Perizinan
Pinjam Meminjam Uang Berbasis IT**

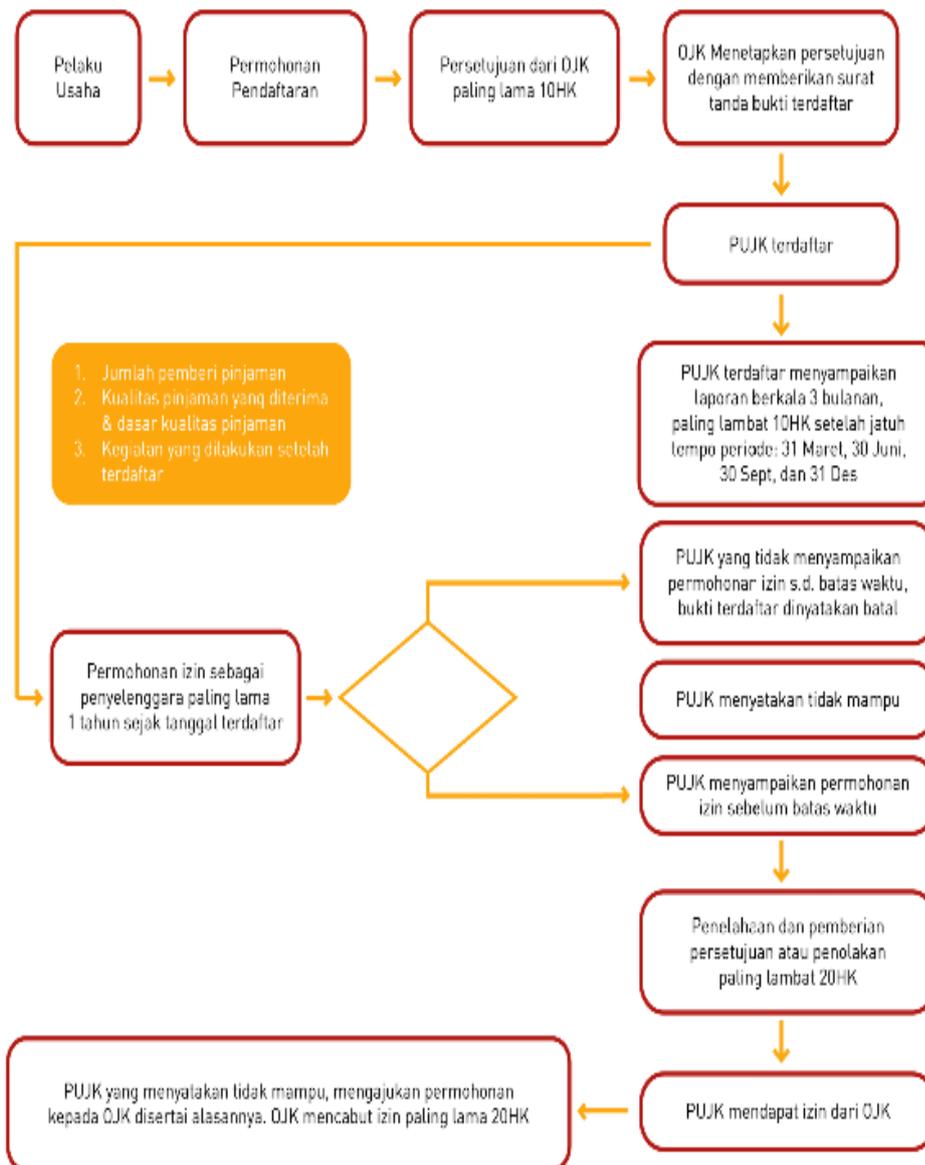


Figure 2.1 Licensing and Registration Process according to POJK No.77/POJK.01/2016

Source : Otoritas Jasa Keuangan, Kajian Perlindungan Konsumen Sektor Jasa Keuangan:Perlindungan Konsumen Pada Fintech, (Jakarta : Departemen Perlindungan Konsumen OJK, 2017).

4. Overview of Peer-to-Peer Lending Users

According to Cambridge dictionary, User is someone who uses a product, machine, or service.³⁶ According to OJK regulation No 77/POJK.01/2016 Information Technology Based Money Lending and Borrowing Users, hereinafter referred to as Users, are Lenders and Borrower(Loan Recipient) who use Information Technology Based Money Lending and Borrowing Services. Individual could choose to be borrower or lender through the Peer-to-Peer Platform sign-up option.

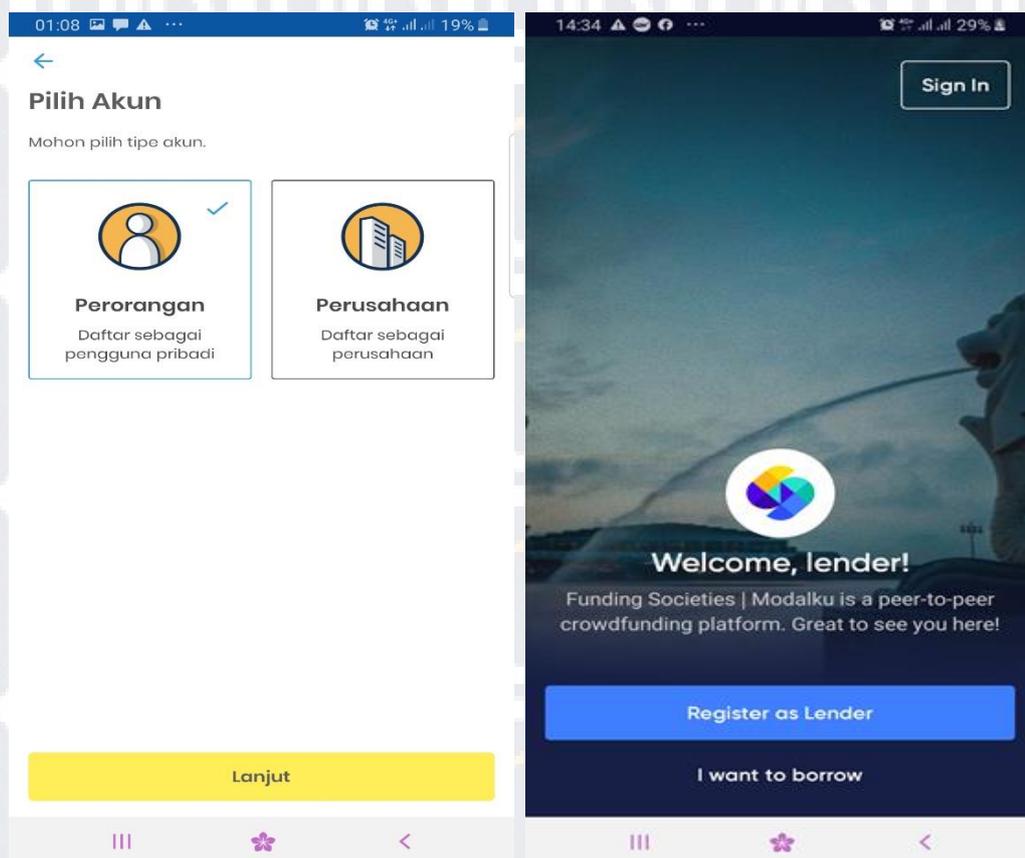


Figure 2.2 User account option in the Peer-to-Peer Lending smartphone Application of Akseleran and Modalku.

³⁶ Cambridge Dictionary, "user", <https://dictionary.cambridge.org/dictionary/english/user>, access on 1 november 2019

a) Definition of Lender

According to the oxford dictionary, the definition of a lender is an organization or person that lends money³⁷. In Peer-to-Peer lending, lender is people with extra cash who is willing to lend money under terms and condition both parties could agree on, people are keen to be a lender because as a lender they would benefit from interest rate as also a new form of investment with a fixed income. Lenders are freed to determine for themselves how far they are able to target the amount of bad credit or non-performing loans because in Peer-to-Peer Lending there is a prohibition for credit guarantee of any form.

Regulation of Financial Services Authority Number 77/POJK.01/2016 about Lending Service To Borrow Money Based On Information Technology Article 1 number 8 Lenders are people, legal entities, and/or business entities that have credit because of the Information Technology-Based Lending and Borrowing Service Agreement. Article 16 mentions several valid conditions as lenders

- (1) Lenders may originate from within and/or overseas.
- (2) Lenders, as referred to in paragraph (1), consists of:
 - a. an individual Indonesian citizen;
 - b. foreign national;
 - c. Indonesian / foreign legal entity;
 - d. Indonesian / foreign business entities; and / or
 - e. international institutions.

As the party who is giving the loan or commonly called the investor, on the dashboard provided by the Peer-to-Peer Lending company in their platform there be loan application for lender to access to trace the data of loan application. Investors also of course can see or know all the data regarding every loan

³⁷ Oxford Learner's Dictionary, "Definition of lender noun from the Oxford Advanced Learner's Dictionary", <https://www.oxfordlearnersdictionaries.com/definition/english/lender>, access on 11 November 2019

application made by the borrower. In particularly valid data about the borrower such as income, educational background, personal identity and financial history, the purpose of the loan whether for health business or whether for education, as well as the reasons and so on. If the investor or lender decides to invest the proposed loan, then the investor able to put on deposit as direct investment accordance with the agreement and investment objectives of the lender.

Post that the borrower will do installment as repay the loan funds every period which has been agreed of based on the agreement, and the lender will get benefits in the form of interest. the importance of the amount of interest to be received by the lender depends on the interest rate of the loan invested.

b) Definition of Borrower

According to the Oxford dictionary borrower is a person or an organization that borrows money, especially from is a person or an organization that borrows money, especially from a bank.³⁸ The borrower in Peer-to-Peer Lending is mostly people who are spurned by the conventional institution, a student who is trying to get a student loan with low rates, people who would like to pay their credit card debts and many other forms of needs. The borrower would fill up an online form of application in order to have their financial profile and the Peer-to-Peer Lending platform would post up the interest rate, the function of this financial profile for the lender to purview.

Regulation of Financial Services Authority Number 77/POJK.01/2016 about Lending Service To Borrow Money Based On Information Technology Article 1 number 8

³⁸ Oxford Learner's Dictionary, "Definition of borrower noun from the Oxford Advanced Learner's Dictionary", <https://www.oxfordlearnersdictionaries.com/definition/english/borrower>, access on 11 November 2019

borrower is “Loan Recipients Loan Recipients are people and/or legal entities that have debts due to Information Technology-based Borrowing and Loan Services agreements.”

Article 15 meaning of borrower:

- (1) Loan recipients must originate and domicile in the jurisdiction of the Unitary Republic of Indonesia.
- (2) Loan Recipients as referred to in paragraph (1) consist of:
 - a. an individual Indonesian citizen; or
 - b. Indonesian legal entity.

As the party applying for a loan, the borrower are required to upload all the documents needed to apply for the loan online such as salary slip, Taxpayer Identification Number (NPWP Bahasa Nomor Pokok Wajib Pajak), Identification ID (KTP Bahasa Kartu Tanda Penduduk). Where the documents contain financial statements within a certain period and also the purpose of the borrower in the loan.

For companies that register as borrowers, usually, those who register as borrowers are also required to submit identity documents, proof of company legality, and company financial statements. As the loan application process, there is chances if the request made by the borrower is rejected, the borrower must correct all the reasons for the refusal of the loan application. the loan interest rate will be applied as acceptance of loan is permissible and the loan application made by the borrower will be entered into the marketplace that has been provided so listed lenders can find out about the loan application made by the borrower.

5. Overview of TKB90

TKB90 is a term shortened for *Tingkat Keberhasilan 90* or success level in 90 days, commonly used in the world of Peer-to-Peer Lending, to a measure of the success rate Peer-to-Peer Lending FSP in providing loan settlement and loan settlement facilities within 90 days from the due date.³⁹ The term TKB90 itself can be used by prospective lenders as one of the considerations for investing loan funds in a peer to peer lending company to as under article 29 of POJK No. 77 /POJK.01/ 2016 FSP must have applied transparency as the basic principle in order to give users protection. TKB90 days is calculated from 100% minus TKW90 value.

$$\text{TKB90} = 100\% - \text{TKW90}^{40}$$

6. Overview of TKW90

As lenders give out funding there is a risk of default, that is where TKW90 came up as measurement of default or negligence of settlement of obligations above 90 days from the due date.⁴¹ The public with non-performing loans (NPL) TKW90 is calculated from outstanding defaults above 90 days divided by total outstanding, multiplied by 100%.

$$\text{TKW90} = (\text{Outstanding default} > 90 \text{ days} / \text{Total Outstanding}) \times 100\%^{42}$$

³⁹ Team Amarta, "Apa itu TKB90 dan TKW90?", <https://blog.amartha.com/apa-itu-tkb90-dan-tkw90> access on 10 November 2019

⁴⁰ Team Amarta, "Apa itu TKB90 dan TKW90?", <https://blog.amartha.com/apa-itu-tkb90-dan-tkw90> access on 10 November 2019

⁴¹ Team Amarta, "Apa itu TKB90 dan TKW90?", <https://blog.amartha.com/apa-itu-tkb90-dan-tkw90> access on 10 November 2019

⁴² Team Amarta, "Apa itu TKB90 dan TKW90?", <https://blog.amartha.com/apa-itu-tkb90-dan-tkw90> access on 10 November 2019

7. Overview of Consumer protection

According to the Black Law Dictionary consumer is:

“One who consumers, individuals who purchase, use, maintain and dispose of product and services”⁴³

Article 1 number 2 Law No. 8 of 1999 Concerning Consumer Protection

“Consumers are everyone of the use of goods and/or services available in the community, whether for the interests of themselves, family other people, or others lives, and not for trade”.

A.Z. Nasution: Consumers are everyone who gets goods or services used for a particular purpose: Consumers between everyone who gets goods and/or services to be used with the goal to make ites and/or other services to be used with the goal to make items and/or other services to be traded (commercial objectives);⁴⁴ A.Z. Nasution explain that consumer protection law as a special part of consumer law. General Consumer law regulates regarding the relationship and probles of the provisions of goods and/or services, whether the laws of consumer protection are more about the problem protection.⁴⁵

⁴³ Black Campbel, Harry. Black Dictionary. West Publishing, 1979

⁴⁴ bdul Atsar& Rani Apriani, Buku Ajar Hukum Perlindungan Konsumen (Yogyakarta; Deepublish. 2019) Pg.47

⁴⁵ Abdul Atsar& Rani Apriani, Buku Ajar Hukum Perlindungan Konsumen (Yogyakarta; Deepublish. 2019) Pg.48

B. Legal Framework

The state of Indonesia is a state of law, reads Article 1 Paragraph (3) of the 1945 Constitution after the third amendment was passed on November 10, 2001. The affirmation of this constitutional provision means that all aspects of life in society, state and government must always be based on law. In this thesis, here is the law that would be review in this thesis:

1. Law Number 9 of 2013 concerning Prevention Eradication of Criminal Acts on Terrorism Funding

Ratification of the International Convention for the Suppression of the Financing of Terrorism, 1999 (International Convention on the Eradication of Terrorism Funding, 1999) birthing This law which was passed and enacted on March 13,2013 regulate the criminalization of criminal acts of financing terrorism and other crimes relating to criminal acts of financing terrorism. The regulation deliberate the application of the principle of recognizing financial service users, reporting and supervision of compliance, supervision of money transfer activities through a transfer system or through other systems carried out by Financial Service Providers, oversight of the carrying of cash and / or other payment instruments into or outside Indonesian customs areas, blocking mechanisms, inclusion in the list of suspected terrorists and terrorist organizations, arrangements regarding investigations, prosecution , and hearings in court hearings, as well as cooperation, both nationally and internationally, in the context of preventing and eradicating criminal acts of financing terrorism

The writer using the application of the principle of recognizing financial service users in this law because Peer-to-Peer Lending requires to have anti-terrorism program and principle which

regulated in article 11, Efforts to prevent criminal acts of financing terrorism are carried out through:

- (1) application of the principle of recognizing users of financial services;
- (2) reporting and monitoring of FSP compliance;
- (3) supervising money transfer activities through a transfer system or sending money through other systems; and
- (4) supervision of the carrying of cash and/or other payment instruments into or outside the Indonesian customs area.

Application of Principles to Recognize Users of Financial Services, Article 12:

- (1) Supervisory And Regulatory Agency stipulate the provision of principles in recognizing Financial Service Users, including Financial Service Users related to criminal acts of financing terrorism.
- (2) Provisions regarding the principle of recognizing Financial Service Users as referred to in paragraph (1) are regulated separately by the Supervisory And Regulatory Agency.
- (3) FSP is required to apply the principle of recognizing Financial Service Users determined by each Supervisory and Regulatory Agency as referred to in paragraph (1).

2. Law Number 8 of 2010 concerning Prevention and Eradication of Money Laundering Crimes

The perpetrators of criminal acts might do an attempt to disguise origin of the asset which obtain from various of criminal conduct, making the law enforcement officials having difficulties to trace and that they freely utilize the assets one of it could be through Peer-to-Peer Lending Platform which is why the FSA (Financial Service Authority) which named OJK to require Peer-to-Peer Lending has its anti-money laundry program and principle implemented in the law.

According to Law Number 8 of 2010, Article 1: Money Laundering is any act that fulfills the elements of a criminal offense in accordance with the provisions in this Law.

Article 1 paragraph (5) explain suspicious Financial Transactions are:

- a) Financial Transactions that deviate from the profile, characteristics, or habits of the Transaction patterns of the relevant Service Users;
- b) Financial Transactions by Service Users that are reasonably suspected of being carried out with the aim of avoiding reporting the relevant Transaction which must be carried out by the Reporting Party in accordance with the provisions of this Law;
- c) Financial Transactions conducted or canceled by using Assets that are suspected to originate from proceeds of crime; or
- d) Financial Transactions requested by Center for Reporting and Analysis of Financial Transactions to be reported by the Reporting Party because it involves Assets that are suspected to originate from the results of a criminal offense.

Based on list of reporting parties from the list written in article 17, Reporting Party according to the Article 17, the Law of The Republic Indonesia Number 8 of 2010 About Prevention and Eradication of Money Laundering.

(1) Reporting Parties include:

a. financial service provider:

1. bank;
2. financing company;
3. insurance companies and insurance brokerage companies;
4. financial institution pension funds;
5. securities companies;
6. investment manager;
7. custodian;
8. trustee;
9. a position as a giro service provider;
10. foreign exchange traders;
11. providers of payment instruments using cards;
12. emoney and / or e-wallet organizer;
13. cooperatives conducting savings and loan activities;
14. pawnshop;
15. companies engaged in the trading of commodity futures; or
16. organizers of money transfer business activities.

b. other goods and / or service providers:

- 17.property company / property agent;
- 18.motor vehicle traders;
- 19.jewelers and precious metals / jewelers;
- 20.art and antique merchants; or
- 21.auction hall

In enforcing money laundering, there are two types of perpetrators, namely active money laundering perpetrators as stated in Article 3 and Article 4 of Law No.8 Year 2010, as well as passive money laundering perpetrators as stated in Article 5 of Law No. 8 of 2010.

Money Laundering Acts diomidid in Article 3 and Article 4 (Active Actors), namely;

Article 3

Any person who places, transfers, transfers, spends, pays, grants, entrusts, carries abroad, changes forms, exchanges for currency or securities or other acts of Assets that he knows or deserves to be the result of a criminal offense as referred to in Article 2 paragraph (1) with the aim of concealing or disguising the origin of the assets is sentenced for money laundering with a maximum imprisonment of 20 (twenty) years and a maximum fine of Rp 10,000,000,000.00 (ten billion rupiah).

Article 4

Any person who conceals or disguises the origin, source, location, designation, transfer of rights, or the actual ownership of Assets known or assumed to be the result of a criminal offense as referred to in Article 2 paragraph (1) is convicted of a criminal offense Money with a maximum imprisonment of 20 (twenty) years and a maximum fine of Rp 5,000,000,000 (five billion rupiah).

Article 5

Every person who receives or controls the placement, transfer, payment, grant, donation, safekeeping, exchange, or use of assets that he knows or deserves is a criminal offense as referred to in Article 2 paragraph (1) shall be sentenced to a maximum imprisonment of 5 (five) years and a maximum fine of Rp1,000,000,000.00 (one billion rupiah).

The provisions referred to in paragraph (1) do not apply to Reporting Parties who carry out reporting obligations as regulated in this Law.

3. Law number 11 of 2008 of Information and Electronic Transaction

Based on Article 1 number 1 of Law No. 14 of 2008 concerning Openness of Public Information, 'information' is information, statements, ideas, and signs that contain values, meanings and messages, both words, facts, and explanations that can be seen, heard, and read presented in various packaging and format in accordance with technological developments and electronic and non-electronic communication. Under the Information and Electronic Transaction Law, Electronic Information is one or a collection of electronic data, including but not limited to writing, sound, images, maps, designs, photographs, electronic data interchange (EDI), electronic mail (electronic mail), telegram, telex, telecopy or the like, letters, signs, numbers, access codes, symbols, or processed perforations that have meaning or can be understood by people who are able to understand them.

Article 26 of the Information Technology Electronic Law, is chosen because the reason of issues about identity safety of users. In matter of dealing with cyber criminals:

- 1) The use of any information through electronic media that involves a person's personal data must be done with the approval of the person concerned.
- 2) Any person whose rights have been violated as referred to in paragraph (1) may file a claim for damages incurred under this Law.

4. Article 1250 of the Civil Code

The payment of interest is regulated in Article 1250 of the Civil Code, stating This article is related to payment of a sum of money. Payment of some money arising from the late debtor carrying out achievements. The compensation payment component consists of costs, losses and interest. :

"In an agreement that only relates to payment of a sum of money, reimbursement of costs, losses and interest arising from late implementation, it consists only of interest determined by law without reducing the enactment of special laws. Reimbursement of costs, losses and interest must be paid, without the need to prove a

loss by the creditor. Reimbursement,, the loss and interest must only be paid since requested before the Court, except if the law stipulates that it is valid by law "

5. Bank Indonesia Regulation Number 19/12/PBI/2017 About Implementation Of Financial Technology

In These regulations explain that the financial technology ecosystem needs to be continuously monitored and developed to support the creation monetary stability, financial system stability, and system efficient, smooth, safe and reliable payment for support national economic growth which sustainable and inclusive. this regulations rules out; purpose and scope, registration, registration system, sandbox regulatory, licensing and approval, monitoring and supervision, cooperation of system services implementation payments with FSPs financial technology, coordination and cooperation and sanction.

According to article 1 paragraph (1) PBI No: 19/12 / PBI / 2017 concerning the Implementation of Financial Technology:

1. Technology financial is the use of technology in a financial system that produces new products, services, technology and/or business models and can have an impact on monetary stability, financial system stability, and/or efficiency, smoothness, security and payment system constraints.
2. The FSP of Financial Technology is each party that organizes Financial Technology activities.
3. Payment System Service Provider is payment system service providers as referred to in the Bank Indonesia regulatory provisions regarding conducting transaction processing payment.
4. Regulatory Sandbox is a limited trial space which is safe for testing the Technology Provider Financials with products, services, technology, and / or business model.

Article 3

(1) Implementation of Financial Technology is categorized into in:

- a. payment system;
- b. market supporters;
- c. investment management and risk management;
- d. loans, financing and capital supply; and
- e. other financial services.

(2) Financial technology as referred to in paragraph (1) has criteria:

- a. innovative;
- b. can have an impact on products, services, technology, and / or financial business models that already exist;
- c. can provide benefits to the community;
- d. can be widely used; and
- e. other criteria set by Bank Indonesia.

Article 4 The scope of the arrangements for the implementation of Financial Technology includes:

- a. registration;
- b. Regulatory Sandbox;
- c. licensing and approval; and
- d. monitoring and supervision

6. Regulation of the Financial Services Authority (POJK) Number

77/POJK.01/2016 concerning Information Technology-Based

Lending and Borrowing Services

OJK made this rule to regulate various matters that must be obeyed by the loan business provider from user to user, or commonly called fintech peer to peer lending (P2P lending). This regulations regulates the limitation of share ownership, minimum capital, the maximum limit of loans and interest, the necessity of making an escrow account, management of loan service to borrow money based

on information technology, registration and licensing, loan service and agreement, risk mitigation, prohibitions and electronic signatures, as well as several principles that must be applied by fintech.

article 1. In this Financial Services Authority Regulation, which is

meant by:

1. The Financial Services Authority, hereinafter abbreviated as OJK, is an independent institution that has the functions, duties and authority to regulate, supervise, examine and investigate as referred to in Act Number 21 of 2011 concerning the Financial Services Authority.
2. Other Financial Services Institutions are mortgages, guarantee institutions, Indonesian export financing institutions, secondary housing finance companies, and institutions that carry out compulsory management of public funds, including FSPs of social security, pension and welfare programs, as referred to in the legislation invitations on mortgages, guarantees, Indonesian export financing institutions, secondary housing finance companies, and institutions that conduct mandatory public funds management, as well as other financial service institutions that are declared to be overseen by the OJK based on statutory regulations.
3. Information Technology-Based Lending and Borrowing Services is the provision of financial services to bring together lenders and loan recipients in the context of entering into loan and loan agreements in rupiahech providers. directly through an electronic system using the internet network.
4. Electronic system is a series of electronic devices and procedures whose functions are to prepare, collect, process, analyze, store, display, announce, send and / or disseminate electronic information in the field of financial services.
5. Information Technology is a technique for collecting, preparing, storing, processing, announcing, analyzing, and / or disseminating information in the field of financial services.
6. Information Technology Based Money Lending and Borrowing Service hereinafter referred to as Operator is an Indonesian legal entity that provides, manages, and operates Information Technology Based Money Lending and Borrowing Services.
7. Loan Recipient is a person and / or legal entity that has a debt due to an Information Technology Based Lending and Borrowing Service agreement.

8. Lenders are people, legal entities, and / or business entities that have receivables because of Information Technology Based Loan and Loan Services agreements.
9. Users of Information Technology Based Money Lending and Borrowing Services, hereinafter referred to as Users, are Lenders and Loan Recipients who use Information Technology Based Money Lending and Borrowing Services.
10. Directors:
 - a. for Providers in the form of a limited liability company, are directors as referred to in Act Number 40 of 2007 concerning Limited Liability Companies; or
 - b. for the Operator in the form of a cooperative legal entity, is the management as referred to in Act Number 25 of 1992 concerning Cooperatives.
11. Commissioner:
 - a. for Providers in the form of a limited liability company, are commissioners as referred to in Act Number 40 of 2007 concerning Limited Liability Companies; or
 - b. for Operators in the form of cooperative legal entities are supervisors as referred to in Act Number 25 of 1992 concerning Cooperatives.
12. Electronic Documents are any electronic information created, forwarded, sent, received, or stored in analog, digital, electromagnetic, optical, or the like, which can be seen, displayed and / or heard through a computer or Electronic System including but not limited to writing, sound, pictures, design maps, photographs or the like, letters, signs, numbers, access codes, symbols or perforations that have meaning or meaning or can be understood by people who are able to understand them as referred to in Law Number 11 of 2008 concerning Information and Electronic Transactions.
13. Electronic Certificate is an electronic certificate containing an electronic signature and identity that shows the legal subject status of the parties in electronic transactions issued by electronic certification providers as referred to in Act Number 11 of 2008 concerning Information and Electronic Transactions.
14. Electronic Certification Service Provider is a legal entity that functions as a party that grants and audits Electronic Certificates registered with OJK.

Article 2

- (1) The FSP is declared as Other Financial Services Institution.
- (2) Operator legal entities in the form of:
 - a. limited liability company; or

- b. cooperative.

Article 3

- (1) FSP in the form of limited liability companies as referred to in Article 2 paragraph (2) letter a, can be established and owned by:
 - a. Indonesian citizens and/or Indonesian legal entities; and/or
 - b. foreign citizens and/or foreign legal entities.
- (3) The ownership of the Operator's shares by foreign citizens and/or foreign legal entities as referred to in paragraph (1) letter b, either directly or indirectly is at most 85% (eighty-five percent).

Article 4:

- (1) Operators in the form of limited liability companies must have paid-up capital of at least Rp1,000,000,000.00 (one billion rupiah) at the time of registration.
- (2) Operators in the form of cooperative legal entities are required to have their own capital of at least Rp1,000,000,000.00 (one billion rupiah) at the time of registration.
- (3) The Operator is required to have paid-up capital as referred to in paragraph (1) or own capital as referred to in paragraph (2) of at least Rp2,500,000,000.00 (two billion five hundred million rupiahs) when submitting a permit application for Peer-to-Peer Lending;

Article 5

- 1) The Provider provides, manages, and operates Information Technology-Based Money Lending and Borrowing Services from the Lender to the Recipient whose source of funds comes from the Lender.
- 2) Providers can cooperate with providers of information technology-based financial services in accordance with statutory provisions.

Limitation of Fund Lending, Article 6

- 1) The Provider is required to meet the maximum limit of the total loan funding for each Loan Recipient.
- 2) The maximum limit for the total lending of funds as referred to in paragraph (1) is set at Rp2,000,000,000.00 (two billion rupiah).
- 3) OJK can conduct a review of the maximum limit of the total lending of funds as referred to in paragraph (2).

Article 7 mandatory for the FSP of Peer-to-Peer Lending to register and licensing to OJK.

Article 8:

- (1) FSP that will carry out Information Technology-Based Money Lending and Borrowing Services submit applications for registration to OJK.
- (2) FSP that have carried out Information Technology-Based Money Lending and Borrowing Services activities before this OJK regulation is enacted, must submit a request for registration to OJK no later than 6 (six) months after this OJK regulation comes into force.
- (3) Application for registration by the Operator as referred to in paragraph (1) and paragraph (2), shall be submitted by the Board of Directors to the Chief Executive of the Insurance Supervisory, Pension Funds, Financing Institutions, and Other Financial Services Institutions using Form 1 as listed in the Appendix which is a an inseparable part of this OJK regulation, and is accompanied by a document that at least contains:
 - a. deed of incorporation of a legal entity including the articles of association and amendments (if any) that have been approved / approved by the competent agency or notified to the competent agency in accordance with statutory provisions;
 - b. proof of personal identification and curriculum vitae, accompanied by a recent 4x6 cm color photograph of:
 1. shareholders who own shares of at least 20% (twenty percent);
 2. members of the Board of Directors; and
 3. Commissioners members;
 - c. photocopy of principal number of corporate taxpayers;
 - d. Certificate of Domicile of the Operator from the competent agency;
 - e. evidence of operational readiness for business activities in the form of documents related to the Electronic System used by the FSP and data on operational activities.
 - f. proof of fulfillment of capital requirements as referred to in Article 4 paragraph (1) or Article 4 paragraph (2);
 - g. statement letter of settlement plan related to the rights and obligations of the User in the event that the licensing of the Operator is not approved by the OJK.
- (4) Approval for an application for registration is made within a maximum period of 10 (ten) working days from the receipt of the application for registration in accordance with the requirements in these OJK regulations.

- (5) OJK approved the approval of the registration of the FSP by providing a letter of approval.

Article 9

- (1) Registered operators are required to submit periodic reports every 3 (three) months for periods ending March 31, June 30, September 30, and December 31 to OJK with information that at least contains:
- a. number of Lenders and Loan Recipients;
 - b. loan quality received by the Loan Recipient following the basis for evaluating loan quality; and
 - c. activities that have been carried out after being registered with OJK.
- (2) Periodic reports every 3 (three) months as referred to in paragraph (1) shall be submitted to OJK no later than 10 (ten) working days from the due date of the reporting date.

Article 10

- (1) The Operator which has been registered with OJK, is required to submit a license application as Operator within a maximum period of 1 (one) year from the date it is registered at OJK.
- (2) In the event that the period as referred to in paragraph (1) has expired, the FSP has obtained a registered proof of letter and did not submit the permit application or did not meet the licensing requirements, the FSP registered proof as referred to in Article 8 paragraph (5) declared null and void.
- (3) Operators whose registration documents have been declared null and void as referred to in paragraph (2) may no longer submit applications for registration to OJK.
- (4) The Operator for which the certificate of registration has been declared null and void as referred to in paragraph (2), must settle the User's rights and obligations in accordance with the statement of plan for settlement.
- (5) FSP that are still registered and declare unable to continue their operational activities, must submit a request to the OJK accompanied by reasons of incompetence, and a plan to resolve user rights and obligations.

Licensing explain in article 11:

(1) Application for Licensing of the FSP as referred to in Article 10 paragraph (1) shall be submitted by the Board of Directors to the Executive Chief of the Insurance Supervisory, Pension Funds, Financing Institutions, and Other Financial Services Institutions using Form 2 as listed in the Appendix which is an integral part of these OJK regulations and are accompanied by at least:

a) deed of incorporation of a legal entity including its articles of association and amendments (if any) that have been approved/approved by the competent agency or notified to the competent authority, which at least contains:

1. name and place of domicile;
2. business activities as an Information Technology-Based Lending and Borrowing Company;
3. capital;
4. ownership;
5. authority, responsibilities, terms of office of Directors, and Commissioners; and
6. changes to the latest articles of association (if any) accompanied by evidence of endorsement, approval and / or letter of receipt of notification from the competent authority;

b) ownership list, in the form of:

1. list of shareholders and details of the amount of each share ownership for the Operator in the form of a limited liability company; or
2. a list of members including the total principal savings and mandatory savings for the Operator in the form of a cooperative legal entity;

c) shareholder data:

1. for individuals, enclosed with:

- a) photocopy of identification in the form of a valid resident card or passport for foreign nationals;
- b) photocopy of tax identification number;
- c) curriculum vitae, accompanied by a recent 4x6 cm color photograph; and
- d) a stamped statement stating:
 1. the Operator's capital deposit does not originate from loans;
 2. FSP capital deposits do not originate from money laundering and financial crimes;
 3. not recorded in the list of bad loans;

4. have never been convicted of a criminal offense in the field of financial and / or economic services business based on a court decision that has had permanent legal force in the last 5 (five) years;
 5. have never been convicted of a criminal offense based on a court decision that has permanent legal force in the last 5 (five) years;
 6. has never been declared bankrupt or was guilty of causing a company / company to go bankrupt based on a court decision that has had permanent legal force in the last 5 (five) years; and
 7. has never been a controlling shareholder, a member of a board of directors, or a member of a board of commissioners, a financial service company whose business license has been revoked because of a violation in the last 5 (five) years;
2. For legal entities, enclosing:
- a) deed of incorporation of a legal entity including the articles of association and the latest amendment (if any), accompanied by evidence of endorsement, approval, or recording from the competent authority;
 - b) statement of directors or equivalent stating that:
 - 1) the Operator's capital deposit does not originate from loans;
 - 2) FSP capital deposits do not originate from money laundering and financial crimes; and
 - 3) not recorded in the congestion credit list;
 3. For the central government, accompanied by government regulations concerning the participation of State capital for the establishment of companies;
 4. for regional governments, accompanied by regional regulations concerning the inclusion of regional capital for the establishment of companies;
 - d) Directors and Commissioners data:
 - 1) photocopy of identification in the form of a valid resident card or passport for foreign nationals;
 - 2) curriculum vitae with a recent 4x6 cm color photograph;
 - 3) photocopy of tax identification number; and
 - 4) stamped statement letter from each member of the Board of Directors and the Commissioner stating:

- (1) not recorded in the list of bad debts;
 - (2) have never been convicted of committed a crime in the field of financial and/or economic services based on a court decision that has had permanent legal force in the last 5 (five) years;
 - (3) have never been convicted of a criminal offense based on a court decision that has permanent legal force in the last 5 (five) years;
 - (4) has never been declared bankrupt or been found guilty of causing a business entity to be declared bankrupt based on a court decision that has permanent legal force in the last 5 (five) years; and
 - (5) has never been a shareholder, director, commissioner of a financial services company whose business license has been revoked due to a violation in the last 5 (five) years;
- e) photocopy of proof of capital fulfillment which is legalized and is still valid during the permit application process on behalf of one of the commercial banks conducting business activities conventionally and/or based on sharia principles incorporated in Indonesia;
 - f) Organizational structure;
 - g) guidelines/standards for operational procedures related to the implementation of anti-money laundering and prevention of terrorism financing programs;
 - h) work plan for the first 1 (one) year which at least contains:
 1. a description of the business activities to be carried out;
 2. targets and steps taken to realize the intended targets; and
 3. financial statement projections for the next 1 (one) year;
 - i) proof of operational readiness in the form of:
 1. proof of ownership or control of the building and office space or service units (outlets), in the form of a photocopy of certificates of ownership, building rights, or usage rights on behalf of the Operator, or building / room lease agreements; and
 2. list of inventory and office equipment;
 - j) photocopy of taxpayer principal number on behalf of the FSP;
 - k) statement of settlement plan related to the rights and obligations of the User in the event that the FSP cannot continue the operational activities of the Information Technology Based Money Lending and Borrowing Services; and
 - l) proof of payment of licensing fees.

- (3) OJK reviews the licensing application submitted by the Operator.
- (4) OJK gives approval or rejection of licensing applications no later than 20 (twenty) working days from the receipt of the permit application documents in accordance with the requirements in these OJK regulations.
- (5) An automatic permit application shall be valid if the time period referred to in paragraph (3) is exceeded.

Article 15 meaning of borrower:

- (1) Loan recipients must originate and domicile in the jurisdiction of the Unitary Republic of Indonesia.
- (2) Loan Recipients as referred to in paragraph (1) consist of:
 - a) an individual Indonesian citizen; or
 - b) Indonesian legal entity.

Lender Article 16

- (1) Lenders can come from within and/or abroad.
- (2) Lenders as referred to in paragraph (1) consists of:
 - a. an individual Indonesian citizen;
 - b. foreign national;
 - c. Indonesian / foreign legal entity;
 - d. Indonesian / foreign business entities; and / or
 - e. international institutions.

Article 17

- (1) The FSP provides input on the interest rates offered by Lenders and Loan Recipients by considering the reasonableness and development of the national economy.
- (2) In the event that the Loan Recipient receives a loan from abroad, the operation of Information Technology-Based Money Lending and Borrowing Services is subject to statutory provisions

Article 18:

Agreement to implement Money Lending and Borrowing Services

Information Technology Based includes:

- a. agreement between the FSP and the Lender; and
- b. agreement between the Lender and the Loan Recipient.

Article 22

The FSP can become a member of OJK's financial information service system or other information service system registered with OJK by fulfilling the requirements in accordance with statutory provisions.

Article 26 FSP must:

- a. maintain the confidentiality, integrity, and availability of personal data, transaction data, and financial data that it manages since the data was obtained until the data is destroyed;
- b. ensure the availability of authentication, verification, and validation processes that support the discretion in accessing, processing and executing personal data, transaction data, and financial data that it manages;
- c. guarantee that the acquisition, use, utilization, and disclosure of personal data, transaction data and financial data obtained by the Operator are based on the agreement of the owner of personal data, transaction data and financial data, unless otherwise stipulated by statutory provisions;
- d. provide other communication media in addition to the Information Technology-Based Lending and Borrowing Services Electronic Money System to ensure the continuity of customer services that can be in the form of electronic mail, call centers, or other communication media; and
- e. notify the owner of personal data, transaction data and financial data in writing if there is a failure in protecting the confidentiality of personal data, transaction data and financial data under management.

Article 29

The FSP must implement the basic principles of User protection, namely:

- a. transparency;
- b. fair treatment;
- c. reliability;
- d. confidentiality and data security; and
- e. Simple, fast and affordable user dispute resolution.

Article 30

1. The FSP is obliged to provide and/or submit the latest information about the Information Technology Lending and Borrowing Service that is accurate, honest, clear, and not misleading.
2. The information referred to in paragraph (1) is contained in documents or other means that can be used as evidence.

Article 42 anti money laundering

FSP must implement anti-money laundering and terrorism financing prevention programs in the financial services sector against users in accordance with statutory provisions regarding the implementation of anti-money laundering and terrorism financing programs.

Sanctions, Article 47

- (1) For violating obligations and prohibitions in this OJK regulation, OJK is authorized to impose administrative sanctions on the Operator in the form of:
 - a. written warning;
 - b. fines, namely the obligation to pay a certain amount of money;
 - c. restrictions on business activities; and
 - d. revocation of permission.
- (2) Administrative sanctions as referred to in paragraph (1) letters b through letter d may be imposed with or without prior administrative sanctions in the form of written warnings as referred to in paragraph (1) letter a.
- (3) Administrative sanctions in the form of fines as referred to in paragraph (1) letter b may be imposed separately or jointly with the imposition of administrative sanctions as referred to in paragraph (1) letter c and letter d.

Article 48

The FSP must be registered as a member of the association appointed by the OJK

5. OJK number 18/SEOJK.02/2017

Letter Of Financial Services Number 18/SEOJK.02/2017 About Governance And Information Technology Risk Management Loan Service To Borrow Money Based On Information Technology contain rules for Confidentiality and Security of Consumer Data and/or Personal Information, personal data that must be protected in the Fintech business in Indonesia, namely:

VI. Data And Information Management

1. The FSP is prohibited from distributing the User's personal data and information to other parties.

2. User's personal data and information as referred to in number 1 shall at least include:

a. attached and identifiable data and information:

1. individuals such as:

- a. name;
- b. Residence address;
- c. identity card (KTP, SIM, Passport);
- d. Taxpayer Identification Number (NPWP);
- e. date of birth and/or age;
- f. email address;
- g. IP address;
- h. phone number;
- i. account number;
- j. biological mother's name;
- k. credit card number;
- l. digital identity (Biometrics);
- m. signature;
- n. educational background;
- o. Job Experiences;
- p. current account;
- q. register of assets;
- r. data and other related information;

2. Corporation:

- a) name of the corporation;
- b) address;
- c) telephone number;
- d) composition of directors and commissioners including identity documents in the form of KTP / Passport/residence permit;
- e) composition of shareholders;
- f) account number;
- g) checking account;
- h) list of assets;
- i) company documents;
- j) data and other related information;

b. material non-public data and information:

- 1) financial statements;
- 2) business performance;
- 3) management decisions;

- 4) number of customers;
 - 5) data and other related information;
 - c. data and information related to financial transactions; and
 - d. data and information related to contracts/agreements.
3. The prohibition referred to in number 1 is excluded inThing:
- a. The user gives written consent; and / or
 - b. required by applicable law.
4. In the event that the User gives written approval as referred to in number 3 letter a, the Provider may provide the User's personal data and / or information and ensure the said third party does not provide and / or use the User's personal data and / or information for purposes other than those agreed between Organizer with other parties.
5. The procedure for written consent from the User can be stated in forms include:
- a. choice of agree or disagree; or
 - b. give a sign of agreement,

8. Perka No. PER-09/1.02.2/PPATK/09/12

Article 1 paragraph 4 concerning Procedures for Submitting Suspicious Financial Transaction Reports and Cash Financial Transaction Reports for Customers of Financial Service Providers, Financial Service Providers, hereinafter abbreviated as FSP include banks, finance companies, insurance companies and brokerage companies insurance, pension funds, financial institutions, securities companies, investment managers, custodians, trustees, postal operators, foreign exchange traders, providers of card-based payment instruments, e-money and / or e-wallet providers, cooperatives conducting savings and loan activities, mortgages, companies engaged in commodity futures trading, or organizers of money transfer business activities.

C. Theoretical Framework

The theoretical foundation used by the author as a basis or guideline for thinking in research. In order to answer, analyse, discuss and put deliberation of a topic, matter or problem, Therefore the theory is used by the author within of several severe opinions of experts and so on must be adapted to the object of research. Legal theory uses the interdisciplinary method, which means that legal theory is not bound to only one method, so that it is broad and free. According to Finch “legal theory involves a study of the characteristic feature essential to law and common to legal systems. One of its chief objects is analysis of the basic elements of law which make it law and distinguish it from other forms of rules and standards. It aims to distinguish law from systems of order which cannot be (or are not normally) described as legal systems, and from other social phenomena. It has not proved possible to reach a final and dogmatic answer to the question “what is law?”

Before describing theories that will be used as a basis for thinking in a literature review, the writer must first choose the theory to be used and classify which theories are relevant to the research title and the

subject matter to be discussed. To facilitate the author in the use of theories that are relevant to the object of research, the theoretical basis must as an analytical tool for the problems to be examined. The theory chosen is integrative theory from Prof. Romli Atmasasmita this theory is more elevated thinking by merging theory from Prof. Mochtar Kusumaatmaja and Prof. Satjipto is the theory of law as development tool and progressive law theory. Prof. Romli Atmasasmita also added up his own thought and more likely revamping by making improvements from existing theories and reform his own integrative theory.

1. Integrative Legal Theory

Mochtar Kusumaatmadja said, Law is a tool to maintain order in society. Considering the function of the nature of the law, basically it is conservative meaning, the law is to supervise and maintain what has been achieved. Such a function is needed in every community, including those who are developing nation, because here too there are results that must be maintained, protected and secured. However, a developing society, which means a society that is changing rapidly, the law is not enough to be just having conservative role in maintaining order.⁴⁶ Theory of development which is basically used as a legal basis for engineering to the community for development in the framework of development achieve the ideals of the welfare state based on the Pancasila and the 1945 Constitution of the Republic of Indonesia.

It also must be able to help the process of community change. An old-fashioned view of law that emphasizes the function of maintaining order in a static sense, and emphasizes the conservative nature of law, considers that law cannot play a meaningful role in the in the renewal

⁴⁶M Khoirul Huda, "*Membedah Teori Hukum Integratif*" <https://gagasanhukum.wordpress.com/2013/09/23/membedah-teori-hukum-integratif/>, Access on 25 November 2019

process.⁴⁷ There are 2 (two) aspects underlying the emergence of this legal theory, namely:

- A. There is an assumption that the law can not play a role even hamper changes in society.
- B. The reality in Indonesian society has changed the nature of people's thinking towards modern law renewal process.

Mochtar Kusumaatmadja mentioned that the law in Indonesia acts as a tool to renew society. This concept means that the law is no longer placed behind reality, as in the concept of the historical school which in fact has been widely adopted in Indonesia, but has been placed before reality. The law precedes the reality with the hope of changing the reality for the better, in line with the ideology of Indonesian law (Pancasila).⁴⁸ The point of this theory is the law is used as a means of engineering the community for development in order to achieve the ideology of the welfare state based on Pancasila and the Constitution 1945 of the Republic of Indonesia.

Progressive legal theory from Prof. Satjipto Rahardjo, According to Rahardjo, legal thinking needs to return to its basic philosophy, which is law for humans. With this philosophy, human beings become the determinant and point of legal orientation. The law is in charge of serving humans, not vice versa. Therefore, the law is not an institution that is free from human interests. The quality of law is determined by its ability to serve human welfare. This has led to progressive law adopting 'ideology': pro-justice law and pro-people law. The interests of the people (their welfare and happiness) must be the point of orientation and the ultimate goal of the administration of law.⁴⁹

⁴⁷ Yuoki surinda, "Teori Hukum Pembangunan Mochtar Kusumaatmadja"
<https://yuokysurinda.wordpress.com/2016/02/27/teori-hukum-pembangunan-mochtar-kusumaatmadja/>, access on 25 November 2019

⁴⁸ Arifin Leonarda Sambas K, *Teori-Teori Hukum Klasik dan Kontemporer*, (Bogor : Penerbit Ghalia Indonesia, 2016), Pg. 105.

⁴⁹ Yuoki Surinda, *Op. Cit*

His Progressive law theory Because progressive law places the interests and needs of humans/people as its point of orientation, it must have sensitivity to the problems that arise in human relations.

One of the crucial issues in social relations is the oppression of humans in oppressive structures, whether political, economic, or social cultural. In the context of such constraints, progressive law must appear as an emancipatory (liberating) institution. The character of progressive law that requires the presence of law is associated with empowerment as a social goal, causing progressive law is also close to the social engineering of the Roscoe Pound. By its adherents, this social engineering effort is considered an obligation to find the best ways to advance or direct the community.⁵⁰

Facing transitional conditions where problems coincide, are all-emergency, and are full of complications, law enforcement officials are required to take breakthrough steps in carrying out the law, not just applying regulations in black and white. This is important because there are many outdated regulations, so many realities and current issue. Even if there are rules, many are not quality because they are contradictory and overlapping here and there. Therefore, the presence of wise, visionary, and creative legal actors is absolutely necessary to "guide" the creative meaning of these rules that are editorially difficult to find in the existing regulatory texts. In conclusion progressive law considers that the law is formed for humans. So the law to make people happy, the law to serve for the benefit of humans. Not human to law, law is an institution that aims to bring people to a just, prosperous life and make people happy.

Progressive law is a law that is pro-people and a law that is pro-justice, Law is always in the process of being "law as a process, the law in the making"⁵¹

⁵⁰ Arifin Leonarda Sambas K, Op. Cit

⁵¹ Arifin Leonarda Sambas K, Loc. Cit.

Integrative means integrating the system of thought patterns of norms from Mochtar Kusumaadmadja, the systems of the behavior of Satjipto Rahardjo coupled with his own ideas of thinking creating theory which has its own distinctive character. This integrative theory is not only a basis for the study of national development problems in the context of looking forward but also in the context of the influence of international relations into the life systems of a nation, especially the Indonesian nation.⁵² From these two theories by Prof. Dr. Romli Atmasasmita was reconstructed into an integrative legal theory that was based on a system of norms, a system of behavior and a system of values based on noble values of Pancasila.⁵³

According to Prof. Romli Atmasasmita the concept of law is the principles, rules of process and institutions, is the driving force for the operation of law in society to achieve the legal goals of certainty, usefulness and justice. The process of developing the function and role of law must be carried out regularly, and rejects that the process of changing society through law must be revolutionary. The core of the conclusion is the concept of law can be understood as a system of norms, as a system of behavior and as a system of values that is part of a particular community's activities, at certain times and places.⁵⁴ The point of this theory is Prof. Romli Atmasasmita, S.H., LL.M. stated that through the performance of BSE (Social and Scientific Engineering) every step of the government in the formation of law and law enforcement is a policy based on a system of norms and logic in the form of principles and rules, and the normative strength of the law must be realized in changing people's behavior and bureaucracy towards the ideal -we are building a democratic rule of law. The democratic rule of law is excavated from three pillars, namely rule by law, protection of human rights and access to justice.

⁵² Ibid, pg. 121

⁵³ M Khoirul Huda, "membedah teori hukum Integratif", <https://gagasanhukum.wordpress.com/2013/09/23/membedah-teori-hukum-integratif/>, access on 12 Maret 2020

⁵⁴ Loc. Cit.

The value referred to here is Pancasila as the highest value for making changes to norm systems and systems of social justice. Or it might not be excessive if the integrative law referred to by Romli is said to be law as if it were Pancasila.⁵⁵

Therefore, in the practice of international relations in the midst of globalization, developing countries are often victims of hypocritical developed countries that are more selfish than developing together with other developing countries. In the field of bureaucracy, the integrative legal theory requires the existence of bureaucratic engineering and engineering the community. Bureaucratic engineering through norm systems and behavioral systems, while community engineering is carried out through value systems. The three systems come from the main source of the living law in their society, especially in Indonesia, originating from the main sources of the state and nation, namely Pancasila.⁵⁶

There are a number of core points to this legal concept, namely as follows:

- a) Community life is always in a state of conflict of interest, whether based on technical, cultural, social, economic and political conflicts.
- b) Legal functions regulate and resolve conflicts, in addition to maintaining and maintaining order.
- c) Westernization of law has historically intensified conflict and degraded the easternization of law.
- d) Legal modernization is not a complete acceptance of foreign legal systems, but must adapt according to the living law

⁵⁵ Mummad Hadidi, "teori hukum integratif", <https://www.muhammadhadidimagisterilmuhukum.blogspot.com/2015/06/teori-hukum-integratif.html> access on 8 March 2020

⁵⁶ Arifin Leonarda Sambas K, Op. Cit, pg. 119

- e) The function of law as a means of renewal is misused as a means of coercing the will of the authorities to their people (dark engineering)
- f) The Indonesian legal system has long ignored the living law including adat la adat law) .
- g) Pay less attention and consider 3 (league) factors that inhibit the function of law as a means of renewal.
- h) In-court settlement has proven to be not optimal in resolving conflicts, even in the case of adat causing unending conflict.
- i) Heterogeneity and socio-cultural varieties of Indonesia require local wisdom based on adat in the resolution of disputes.
- j) Appropriate community renewal tools with the living law other than in court settlement must be equipped with out of court settlement
- k) the function of integrative law is to change the values that live in society towards new values that reflect legal certainty, usefulness and justice, and maintain and maintain it dynamically. create order, order, peace and harmony of life in society.⁵⁷

⁵⁷ Loc. cit.