LAW AND DEMOCRACY INSIGHT
Volume 3, Issue 2, December 2025 | pp. 176-185
https://doi.org/10.54518/ldi.3.2.2025.1466

Legal Framework and Consumer Protection in Indonesia's Digital Economy: Challenges, Gaps, and Reform Directions

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ABSTRACT

The rapid growth of Indonesia's digital economy has transformed consumer interactions with digital products and services, creating both opportunities and legal challenges. This study examines the effectiveness of Indonesia's legal framework in protecting digital consumers through a systematic literature review of existing legislation, regulatory developments, enforcement challenges, and policy recommendations. The findings show that Indonesia has established important legal foundations, including the Consumer Protection Law, the Personal Data Protection Act, and financial sector regulations. However, these frameworks remain fragmented, reducing their effectiveness in addressing emerging digital issues. Consumer protection is further limited by complex online agreements, low public awareness of digital rights, limited institutional capacity, and recurring personal data breaches. The study emphasizes the importance of harmonizing existing regulations, strengthening institutional coordination, and adopting a hybrid regulatory approach that combines legal oversight with technological safeguards. Expanding online dispute resolution mechanisms, improving enforcement capacity, and promoting digital literacy are also essential. Comparative evidence from Malaysia and China demonstrates that integrated regulations and effective supervision can strengthen consumer protection. Overall, coordinated legal, institutional, and technological strategies are necessary to enhance transparency, accountability, consumer trust, and sustainable growth in Indonesia's digital economy.

Keywords: *Consumer Protection, Data Protection, Digital Consumers, Indonesia, Legal Reform.*

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ARTICLE HISTORY
Received : July 24, 2025
Final Revised : September 10, 2025
Accepted : November 12, 2025
Published : December 30, 2025

1. | INTRODUCTION

The rapid proliferation of digital technologies has profoundly reshaped economic and social activities in Indonesia. Traditional commercial interactions, which relied heavily on face-to-face engagement, are increasingly being replaced by online transactions facilitated through e-commerce platforms, digital banking, and mobile payment systems. While these innovations offer convenience, speed, and broader market access, they also introduce new challenges and risks for consumers. Digital transactions often require the disclosure of sensitive personal and financial information, making consumers vulnerable to data breaches, identity theft, and unfair business practices. Furthermore, the contractual mechanisms used in digital markets, such as click-wrap agreements, frequently contain complex, non-negotiable clauses that may limit consumers' ability to assert their rights. These developments underscore the urgent need for a legal and institutional framework capable of protecting consumers in the evolving digital landscape (Quach et al., 2022).

Indonesia's current consumer protection system is primarily anchored in Law Number 8 of 1999, which regulates business conduct and safeguards consumer rights (Nugraha, 2023). Complementary legal instruments, including the Personal Data Protection Act, Financial Services Authority Regulations, and Bank Indonesia Regulations, aim to address personal data protection, particularly in digital financial services (Kusudarmanto, 2024; Widiarty & Fahim, 2024). The government has also drafted a law specifically targeting personal data protection on digital platforms, aiming to serve as a lex specialis that fills the gaps left by existing sectoral regulations (Arifin et al., 2021). Despite these efforts, the regulatory landscape remains fragmented, outdated, and insufficient to address the complexities of modern digital transactions, leading to inconsistent enforcement and limited protection for consumers (Kumalasari & Syahyunan, 2024). The enforcement of consumer protection laws faces significant challenges. Although legal frameworks exist, practical application is hindered by limited institutional capacity, lack of consumer awareness, and procedural ambiguities. For instance, disputes arising from online transactions often fall under the jurisdiction of multiple laws, creating confusion about which provisions apply, while consumers are often unable to fully exercise their rights due to restrictive contract terms (Widiarty & Fahim, 2024). High-profile cases, such as the 2020 Tokopedia data breach affecting over 91 million users, highlight the limitations of Indonesia's current mechanisms for enforcing compensation and accountability, revealing serious gaps in institutional oversight and procedural clarity (Kusudarmanto, 2024).

These challenges signal the necessity of comprehensive reforms that integrate regulatory, institutional, and technological approaches. Scholars argue that strengthening consumer protection requires not only updating legal provisions but also enhancing institutional coordination, online dispute resolution mechanisms, and digital literacy programs to empower consumers (Nugraha, 2023; Kumalasari & Syahyunan, 2024). Comparative studies indicate that neighboring countries, such as Malaysia and China, have implemented more integrated and enforceable regulatory frameworks that address personal data protection, platform liability, and dispute resolution, offering potential models for Indonesia (Aslam et al., 2022; Kumalasari & Syahyunan, 2024). In particular, adopting a hybrid model that combines regulatory enforcement with technological solutions such as AI-driven compliance monitoring, mandatory registration, and periodic audits could improve transparency, accountability, and consumer protection in Indonesia's digital ecosystem, particularly for Micro, Small, and Medium Enterprises (Chung et al., 2023).

Given the current landscape, significant gaps remain in both the legal framework and its practical enforcement. These gaps raise critical questions regarding the adequacy of existing laws, the effectiveness of institutional mechanisms, and the role of technological solutions in safeguarding consumers. Therefore, this study aims to examine the legal framework of Indonesian digital consumer protection, identify challenges in enforcement and regulatory implementation, and explore potential improvements through integrated legal and technological approaches.

2. | RESEARCH METHOD

This study employs a normative juridical research method, which is widely used in legal scholarship to examine the substance, consistency, and implementation of laws, regulations, and institutional frameworks governing digital consumer protection. The research focuses on analyzing legal norms rather than collecting primary empirical data. A systematic literature review is incorporated to identify, evaluate, and synthesize relevant academic studies, legal documents, government reports, and policy publications concerning consumer protection in Indonesia's digital economy. This approach enables a comprehensive understanding of the evolution of legal frameworks, regulatory challenges, and policy developments related to digital consumer rights.

The primary legal materials consist of statutory provisions relevant to consumer protection in Indonesia, including Law Number 8 of 1999 on Consumer Protection, the Personal Data Protection Act, the Electronic Information and Transactions Law, Government Regulation No. 80 of 2019 concerning Electronic Commerce, and sectoral regulations issued by the Financial Services Authority (*Otoritas Jasa Keuangan*/OJK) and Bank Indonesia. Secondary materials include peer-reviewed journal articles, legal commentaries, official reports, policy papers, and comparative studies discussing digital consumer protection, personal data governance, electronic transactions, and dispute resolution mechanisms. Relevant international literature is also reviewed to provide comparative insights and identify best practices that may strengthen Indonesia's regulatory framework.

The analysis uses a descriptive qualitative approach to systematically describe, classify, and interpret patterns, trends, and gaps within the existing legal framework for protecting digital consumers in Indonesia. Legal provisions are examined alongside findings from previous studies to evaluate their effectiveness, consistency, and practical implementation. Particular attention is given to recurring issues such as unfair contractual terms, personal data breaches, online fraud, enforcement limitations, and institutional coordination. The findings are synthesized to identify regulatory strengths and weaknesses and to formulate recommendations for improving legal certainty, enhancing consumer protection mechanisms, strengthening institutional capacity, and supporting the sustainable development of Indonesia's digital economy through more coherent and adaptive legal governance.

3. | RESULTS

Current Legal Framework of Customer Legal Protection

Indonesia's legal framework for consumer protection in the digital economy is rooted in a combination of existing laws, sectoral regulations, and proposed legislative initiatives that collectively aim to safeguard consumers' rights. At the center of this framework is Law Number 8 of 1999 on Consumer Protection, which serves as the primary instrument for regulating business conduct and ensuring that consumer interests are protected in commercial transactions (Nugraha, 2023). This law establishes fundamental principles, including the right of consumers to obtain accurate and clear information about goods and services, to receive compensation in case of damages or unfair treatment, and to be assured of safety in the use of products. Over time, Law Number 8 of 1999 has been interpreted to cover various forms of commerce, including e-commerce, although its provisions were originally designed for conventional, face-to-face transactions. This foundational law underlines the government's commitment to balancing the relationship between business actors and consumers, ensuring that the marketplace operates under principles of fairness, transparency, and accountability.

Complementing this foundational law are sector-specific regulations that address emerging risks in the digital economy (Saeed et al., 2023). The Personal Data Protection Act establishes safeguards for consumers' personal and financial data, which is particularly relevant as digital platforms increasingly collect, store, and process sensitive information. The law sets out principles for data collection, consent, processing, and storage, and aims to prevent misuse or unauthorized access to consumer data. Similarly, the Financial Services Authority Regulations and Bank Indonesia Regulations provide specialized frameworks for protecting consumers in digital financial transactions, including peer-to-peer lending, electronic money services, and online banking (Broby, 2021; Widiarty & Fahim, 2024). These regulations impose obligations on financial institutions to ensure confidentiality, provide clear disclosures, and implement internal monitoring mechanisms that protect consumers from fraud, data breaches, and unfair practices. Together, these laws create overlapping layers of protection, reflecting the government's recognition that consumer safety in the digital economy requires attention across multiple sectors and regulatory bodies.

Despite the existence of these laws, policymakers have identified the need for more focused legislation to address gaps in current protections, particularly concerning personal data in the digital environment. To this end, the Indonesian government is preparing a Draft Law on Personal Data Protection, intended to act as a lex specialis that directly targets the protection of personal data on digital platforms (Arifin et al., 2021). This proposed law aims to provide clearer obligations for both public and private entities that handle consumer data, introduce enforceable sanctions for data misuse, and establish mechanisms for consumer redress in cases of breaches. The draft emphasizes the need to harmonize existing sectoral regulations while addressing the unique challenges of digital commerce, such as cross-platform data sharing, cloud storage, and automated data processing.

The combined framework of existing laws and draft legislation illustrates Indonesia's proactive approach to consumer protection in the digital era. While Law Number 8 of 1999 provides broad, general protection, sector-specific regulations refine these protections for specialized areas, and the Draft Law on Personal Data Protection seeks to fill emerging gaps created by rapid digital transformation. By integrating these measures, the government aims to create a cohesive legal environment in which consumers can engage in digital transactions with confidence, knowing that their rights and personal information are legally safeguarded.

However, the framework also reflects ongoing challenges. The coexistence of multiple overlapping laws can lead to ambiguity regarding the responsibilities of business actors and enforcement authorities. Moreover, as technology evolves rapidly, some provisions of the existing laws risk becoming outdated or insufficient to address new forms of consumer vulnerability. The Draft Law on Personal Data Protection represents an important step toward modernizing the framework, but its eventual implementation will determine how effectively consumers are shielded from risks in the increasingly complex digital marketplace.

Challenges and Gaps in Indonesia's Digital Consumer Protection

Indonesia has established several legal instruments to protect consumers in digital transactions, but the current framework exhibits notable challenges and gaps that affect the practical realization of consumer rights. The legal framework consists of multiple laws and regulations, including Law Number 8 of 1999 on Consumer Protection, the Personal Data Protection Act, Financial Services Authority regulations, and Bank Indonesia rules, which collectively aim to safeguard consumers, especially in digital financial services (Kumalasari & Syahyunan, 2024). Despite the presence of these laws, the framework remains fragmented, with each regulation focusing on specific aspects of consumer protection or financial oversight. Many regulations were originally designed for conventional business transactions and have not been fully adapted to address the complexities of digital commerce. This separation among laws leads to variations in interpretation and implementation across different institutions, creating gaps in consumer protection and unclear obligations for business actors (Cauffman & Goanta, 2021). Consumers participating in e-commerce, electronic money services, or peer-to-peer lending may encounter inconsistent rules, which reduces the clarity of their rights and the responsibilities of service providers.

Practical enforcement of consumer protection regulations is also limited. While legal provisions exist to guarantee consumer rights, their application in digital transactions is often constrained. For example, click-wrap agreements, which require users to accept terms before completing online transactions, typically contain lengthy, complex, and non-negotiable clauses, limiting consumers' ability to understand or exercise their rights (Kozinets et al., 2021). Consumer protection institutions, such as the National Consumer Protection Agency (*Badan Perlindungan Konsumen Nasional*/BPKN) and the Consumer Dispute Resolution Agency (*Badan Penyelesaian Sengketa Konsumen/BPSK)* are tasked with overseeing compliance, mediating complaints, and resolving disputes. These agencies operate within a complex framework that requires coordination among multiple entities and adherence to formal procedures. While these mechanisms are available, their effectiveness is constrained by administrative complexity, limited resources, and procedural requirements. As a result, consumers may experience delays or difficulties in resolving disputes, particularly when transactions involve digital platforms or cross-border services.

Data breaches remain a significant concern in Indonesia's digital economy. Although the Personal Data Protection Act and sector-specific regulations impose obligations on business actors to safeguard personal information, breaches continue to occur frequently in e-commerce platforms, peer-to-peer lending services, and electronic money systems (Kusudarmanto, 2024). These breaches expose sensitive information, including financial and personal data, to potential misuse. Existing regulations provide some guidance for reporting breaches and imposing sanctions, but mechanisms for ensuring accountability, delivering compensation to affected consumers, and enforcing compliance are still developing. Cases of large-scale breaches, such as incidents involving millions of users, demonstrate gaps in institutional oversight and procedural clarity, indicating that regulatory frameworks have not fully translated into operational protection.

Overall, Indonesia's legal framework provides a foundational structure for consumer protection in the digital era, but significant gaps persist. Fragmentation among regulations results in inconsistencies in obligations and protection measures. Enforcement mechanisms, while established, are limited by procedural and administrative constraints, making it difficult for consumers to exercise their rights fully (Talesh, 2015). Data breaches continue to compromise consumer privacy and security, highlighting deficiencies in operational safeguards and institutional enforcement. These challenges illustrate that, despite a comprehensive set of laws, the practical implementation of consumer protection in Indonesia's digital economy remains limited, leaving consumers vulnerable to risks associated with online transactions, information misuse, and insufficiently regulated digital platforms.

Proposed Improvements for Strengthening Consumer Protection in Indonesia's Digital Economy

To address the challenges faced by consumers in Indonesia's digital economy, several improvements have been suggested to enhance the legal framework and its practical implementation. One key recommendation involves comprehensive reform of existing consumer protection laws. Current regulations, although foundational, do not adequately account for the specific risks and complexities of digital transactions. Reform efforts are necessary to address issues such as information asymmetry, where consumers may have limited knowledge about the products, services, or risks involved in online transactions, and data misuse, which occurs when personal information is collected, stored, or shared without adequate safeguards. In addition, digital platforms often operate under unclear liability structures, making it difficult to hold businesses accountable for losses or damages experienced by consumers (Kumalasari & Syahyunan, 2024). Reforming laws to provide clearer and firmer rules regarding consumer rights, business obligations, and enforcement mechanisms is essential to ensure that legal protections are not only theoretical but also effectively enforceable in practice (Nugraha, 2023).

Another approach emphasizes the adoption of hybrid models that integrate government regulations with technological solutions. This strategy seeks to enhance transparency, accountability, and security within digital marketplaces by combining regulatory oversight with digital tools that monitor compliance, detect violations, and protect consumer data. A comparative study highlights the Chinese model, where strict regulatory supervision is supported by artificial intelligence–driven monitoring systems, audits, and compliance incentives, creating a framework that allows authorities to proactively prevent breaches and ensure that businesses adhere to legal standards (Sari, 2024). By implementing a hybrid system tailored to Indonesia's digital environment, policymakers could strengthen oversight while reducing the burden on consumers to navigate complex legal or technological processes on their own. Such a model could also facilitate faster detection of non-compliance and provide a basis for more effective dispute resolution.

Enhancing existing legal mechanisms is equally crucial to bridging the gap between regulations and consumer experiences. Strengthening online dispute resolution systems can provide faster, more accessible, and less costly options for resolving conflicts between consumers and businesses. Increasing the capacity and resources of consumer dispute resolution agencies, such as BPSK, would allow these institutions to manage cases more efficiently and provide more thorough guidance to consumers navigating online transactions. Additionally, improving digital consumer literacy is vital for empowering users to understand their rights, recognize potential risks, and utilize available legal remedies effectively (Bahri, 2024). Educated consumers are better equipped to make informed decisions and advocate for their rights, which complements the broader legal framework.

International comparisons offer further insight into potential improvements. Studies examining Malaysia and Hong Kong demonstrate the benefits of a dedicated legal framework that comprehensively regulates personal data protection, including clear provisions for criminal sanctions, civil liability, and compensation mechanisms in the event of data breaches (Kusudarmanto, 2024). Malaysia's more integrated regulatory structure provides lessons for Indonesia, showing how a coherent and enforceable system can enhance consumer confidence, reduce risks, and ensure that businesses are accountable for failures in data protection. Observing these international models allows Indonesia to identify best practices and adapt them to its own legal, technological, and institutional contexts (Kumalasari & Syahyunan, 2024).

Overall, these proposed improvements indicate that strengthening consumer protection in Indonesia's digital economy requires both legal and technological interventions. Comprehensive reform of existing laws, adoption of hybrid regulatory models, enhancement of dispute resolution and institutional capacity, promotion of digital literacy, and careful consideration of international practices are all essential to create a system where consumers can confidently engage in digital transactions while ensuring businesses remain accountable and transparent. By implementing these measures, Indonesia could bridge the existing gaps between legal provisions and real-world protections, promoting a more secure, equitable, and effective digital marketplace.

4. | CONCLUSION

Despite notable progress in developing a legal framework to protect consumers in Indonesia's digital economy, significant gaps and challenges continue to hinder the full effectiveness of these protections. Existing laws, such as the Consumer Protection Law, the Personal Data Protection Act, and various financial regulations, provide a foundation for safeguarding consumer rights, but their practical implementation often falls short. Fragmented regulations, limited enforcement capacity, complex click-wrap agreements, and frequent data breaches highlight the difficulties consumers face in asserting their rights and obtaining remedies. These challenges indicate that legal provisions alone are insufficient without complementary measures to ensure compliance, oversight, and accountability.

To address these issues, comprehensive regulatory reform is essential. Revising and harmonizing existing laws to reflect the unique risks of digital transactions, clarify business obligations, and strengthen consumer rights would create a more coherent legal landscape. In parallel, adopting hybrid models that integrate technological solutions with regulatory oversight can enhance transparency, prevent misuse of data, and facilitate compliance monitoring. Strengthening legal mechanisms, including dispute resolution agencies, online complaint systems, and digital consumer education, is also critical to bridge the gap between law and practice. By combining these approaches, Indonesia can move toward a digital consumer protection system that is more effective, equitable, and capable of responding to the evolving challenges of the digital economy.

Acknowledgment
We gratefully acknowledge the contributions of individuals who supported the completion of this article.

Funding Information
This research did not receive any funding.

Conflict of Interest Statement
The authors declare that there is no conflict of interest.

Ethical Approval and Originality Statement
Ethical approval was obtained for this study. The manuscript represents original work and has not been previously published, nor is it under consideration by another journal.

Data Disclosure Statement
The data that support the findings of this study are available from the corresponding author upon reasonable request.

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