

Safeguarding Investor Rights: OJK's Regulatory Framework Including Management and Challenges in Indonesia's Capital Market

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ABSTRACT

Investor protection is crucial for maintaining stability and trust in Indonesia's capital market. The Financial Services Authority (Otoritas Jasa Keuangan, OJK) plays a central role in regulating transparency, preventing fraud, and providing dispute resolution mechanisms. Despite a robust regulatory framework, challenges such as weak enforcement, low financial literacy, and regulatory inefficiencies persist. This study employs a qualitative research approach, incorporating legal analysis and a management control framework. Primary data includes expert interviews, while secondary data consists of financial reports, journal articles, and regulatory documents. Key Performance Indicators (KPIs) such as enforcement actions, fraud detection rates, and investor restitution are analyzed to evaluate regulatory effectiveness. Fraud Prevention through POJK No. 43/POJK.04/2020, which grants OJK the authority to impose sanctions but struggles with enforcement effectiveness; and (3) Alternative Dispute Resolution via collaboration with LAPS SJK and the APPK platform, which enhances accessibility but faces challenges in public awareness and efficiency. Despite these measures, issues such as inadequate deterrents for market violations, gaps in technological supervision, and bureaucratic inefficiencies hinder optimal investor protection. To strengthen investor protection, OJK must enhance legal enforcement, expand financial literacy programs, leverage technology for market supervision, and improve inter-agency coordination. The adoption of RegTech solutions, blockchain transparency mechanisms, and stricter legal sanctions can significantly boost regulatory efficiency and investor confidence. Future research should explore international best practices to further refine Indonesia's financial regulatory landscape.

Keywords: investor protection; OJK; financial regulation; market fraud; dispute resolution

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INTRODUCTION

Investor protection is a crucial element in maintaining a stable and trustworthy capital market (Laub, 1999; Žuk & Žuk, 2024). In Indonesia, the Financial Services Authority (Otoritas Jasa Keuangan, OJK) plays a significant role in ensuring that investors are safeguarded against fraudulent activities, market manipulations, and information asymmetry (Al Akhdloriy et al., 2024; Laub, 1999; Nathania, 2024). Given Indonesia's growing capital market, an effective regulatory framework is essential to foster investor confidence and promote economic growth (Davis et al., 2017).

The Indonesian capital market has seen significant growth in recent years, with an increasing number of retail investors participating in stock and bond markets (Muklis,

2016; Toha et al., 2020). However, this expansion has also exposed vulnerabilities such as insider trading, lack of transparency, and weak enforcement mechanisms. While OJK has introduced regulations such as POJK No. 31/POJK.04/2015 on information disclosure and POJK No. 1/POJK.07/2013 on consumer protection, enforcement remains a critical issue (Yuwana & Dewi, 2021).

The Jiwasraya and Asabri scandals serve as stark reminders of regulatory loopholes that have led to massive financial losses for investors (CNBC Indonesia, 2020). These cases highlight the need for stronger enforcement mechanisms, investor education, and technological improvements in regulatory oversight (Knippers, 2011; Yang & Li, 2018; Zhang et al., 2023). This article critically analyzes OJK's existing framework and the challenges in its implementation.

OJK's regulatory framework for safeguarding investor rights is built on three key pillars: 1) Transparency and Disclosure Requirements Companies listed on the Indonesia Stock Exchange (IDX) must adhere to strict disclosure policies under POJK No. 31/POJK.04/2015, ensuring that investors receive accurate and timely financial information. This regulation aims to mitigate information asymmetry between institutional investors and retail investors (JIAFE, 2023; Putri, 2020). 2) Enforcement Against Market Manipulation and Fraud Regulations such as POJK No. 43/POJK.04/2020 address market fraud, including insider trading and price manipulation (, & , 2019; Bonjou & Muryanto, 2019). OJK has authority to impose administrative sanctions, revoke licenses, and initiate legal proceedings against violators. 3) Alternative Dispute Resolution and Consumer Protection OJK collaborates with the Financial Services Mediation Agency (LAPS) to provide investors with non-litigation solutions for financial disputes (Aprilianti, 2020; Ilias et al., 2023). The Aplikasi Portal Perlindungan Konsumen (APPK) platform allows investors to report grievances online, increasing accessibility to dispute resolution mechanisms.

Challenges in the Implementation of Investor Protection Regulations

Despite the comprehensive regulatory framework, several challenges hinder the effectiveness of OJK in protecting investor rights: 1) Weak Enforcement Mechanisms Regulatory sanctions often lack deterrent effects, as seen in the

Jiwasraya and Asabri cases, where perpetrators managed to evade severe legal consequences (CNN Indonesia, 2018). OJK's limited enforcement power compared to judicial authorities restricts its ability to prosecute financial crimes effectively (Aprilianti, 2020). 2) Low Financial Literacy Among Retail Investors Many retail investors lack adequate financial knowledge, making them vulnerable to fraudulent investment schemes (Nurdin & Marzuki Marzuki, 2023; Youngki Sendi Kristiannando, 2014). Programs like "Yuk Nabung Saham" by IDX aim to increase public awareness, but coverage remains limited in rural areas. 3) Technological Gaps in Market Supervision While OJK has introduced electronic monitoring systems like the Sistem Pelaporan Elektronik Pasar Modal (SPE), real-time fraud detection remains a challenge (Vanessa Naifah Ntoma et al., 2023). The rise of digital trading platforms necessitates more sophisticated regulatory technology (RegTech) to track illicit transactions effectively. 4) Regulatory Overlap and

Bureaucratic Inefficiencies Coordination issues between OJK, the Indonesia Stock Exchange (IDX), and the Ministry of Finance create inefficiencies in regulatory implementation (Tarina & Hutabarat, 2020). The lack of streamlined processes often results in delayed responses to emerging market crises.

This study contributes to the discourse on investor protection by offering a comparative analysis of OJK's framework against global best practices. Indonesia's market, although developing, still lags behind countries like Singapore and Malaysia in terms of regulatory efficiency and enforcement (Diniyya et al., 2021; Nurhasanah & Rahmatullah, 2020; Susilawati et al., 2021). By integrating blockchain-based transparency mechanisms, strengthening **cross-border** regulatory cooperation, and enhancing investor education, OJK can significantly improve investor protection.

METHOD

To analyze the effectiveness of OJK's regulatory framework in safeguarding investor rights, this study employs a qualitative research approach integrating both legal and management control perspectives. The methodology consists of: 1) Legal Analysis Method This study applies doctrinal legal research to examine existing laws, regulations, and legal precedents related to investor protection in Indonesia. The research incorporates comparative legal analysis to assess how Indonesia's regulatory framework aligns with global best practices in capital market governance (Tarina & Hutabarat, 2020). Case law and enforcement records from OJK, Indonesia Stock Exchange (IDX), and judicial institutions are analyzed to evaluate the effectiveness of legal sanctions (Prasetyono, 2013). 2) Management Control Approach The study integrates a risk-based management control system to assess the mechanisms employed by OJK in supervising market participants. Key Performance Indicators (KPIs) such as enforcement actions, fraud detection rates, and investor restitution are analyzed to measure OJK's regulatory effectiveness (Susanti, 2021). A review of Big Data analytics and RegTech (Regulatory Technology) adoption in market supervision is conducted to explore how digital tools enhance investor protection (Riyadi et al., 2020). 3) Data Collection Techniques Primary data: Interviews with legal experts, market regulators, and financial analysts to gain insights into the strengths and weaknesses of OJK's regulatory enforcement. Secondary data: Review of official reports, financial audits, and journal articles from International indexed financial law journals.

This multi-method approach provides a holistic perspective on the regulatory challenges faced by OJK and offers empirical evidence to support policy recommendations.

RESULT AND DISCUSSION

Findings on Transparency and Disclosure Requirements

The implementation of POJK No. 31/POJK.04/2015 has significantly enhanced

transparency and disclosure practices among companies listed on the Indonesia Stock Exchange (IDX). According to Dou et al. (2019), this regulation has led to an improvement in financial reporting quality, allowing investors to make more informed decisions. The mandatory disclosure of financial statements, corporate governance reports, and other relevant information has reduced information asymmetry between institutional and retail investors.

Further studies indicate that increased transparency contributes to greater investor confidence and market efficiency. A study by Rachmad Gesah Mukti Prabowo & Sari Rahmawati (2023) found that firms with higher disclosure levels tend to experience lower stock price volatility, suggesting that comprehensive financial reporting minimizes market uncertainty. Additionally, research by Nugroho & Fadhilah (2023) highlights that stricter enforcement of disclosure regulations has led to a decline in fraudulent financial reporting cases, reinforcing market credibility.

Despite these improvements, some challenges remain in ensuring full compliance. Wahyuni, L., & Karneli (2021) notes that smaller firms often struggle to meet disclosure requirements due to resource limitations. Moreover, the effectiveness of the regulation depends on rigorous enforcement by the Financial Services Authority (Otoritas Jasa Keuangan, OJK). Regular monitoring and penalties for non-compliance are essential to maintaining high disclosure standards.

Overall, the findings suggest that POJK No. 31/POJK.04/2015 has played a crucial role in enhancing transparency within the Indonesian capital market. However, continued regulatory oversight and capacity-building initiatives for smaller firms are necessary to maximize the benefits of the policy.

Enforcement Against Market Manipulation and Fraud: A Regulatory Analysis

Enforcement Mechanisms

OJK has the authority to impose administrative sanctions, revoke licenses, and initiate legal proceedings against violators (Keuangan, 2017). The regulatory framework aims to deter fraudulent activities by increasing compliance costs and legal repercussions for non-compliance. According to Tan & Low (2017), regulatory enforcement plays a crucial role in shaping market behavior by discouraging unethical trading practices.

A study by La Porta et al. (1999) highlights that strong enforcement mechanisms lead to improved investor confidence and market efficiency. By leveraging administrative penalties and legal proceedings, OJK aligns with global best practices in financial regulation. The impact of these measures is reflected in reduced cases of market manipulation and increased transparency in securities transactions (OECD, 2019).

Management Control Approach

A risk-based management control system is instrumental in evaluating OJK's regulatory effectiveness. This approach incorporates Key Performance Indicators (KPIs) such as:

1. Enforcement Actions – The number and severity of sanctions imposed on violators serve as a proxy for regulatory diligence (Bris et al., 2021).

2. Fraud Detection Rates – The efficiency of OJK's surveillance mechanisms in identifying suspicious transactions reflects proactive regulatory oversight (Jackson & Roe, 2009).
3. Investor Restitution – Compensation provided to affected investors measures the effectiveness of enforcement in restoring market integrity (Bris et al., 2021).

By analyzing these KPIs, the study finds that a structured enforcement framework enhances market fairness and investor protection. Empirical data from previous regulatory interventions suggest that OJK's proactive measures contribute to reducing fraudulent activities and fostering a more transparent financial ecosystem (Bank, 2022).

OJK's enforcement strategies against market manipulation and fraud are essential in maintaining market integrity. The application of POJK No. 43/POJK.04/2020, coupled with a risk-based management control system, enhances regulatory efficiency. Future research could explore comparative analyses with international regulatory bodies to identify best practices for further strengthening Indonesia's financial markets.

Alternative Dispute Resolution and Consumer Protection in Indonesia

1. LAPS SJK: A Collaborative Effort for Non-Litigation Dispute Resolution

LAPS SJK was established to provide integrated services for resolving disputes within the Indonesian financial services sector. It offers mediation and arbitration services, aiming to resolve conflicts efficiently and fairly. This institution serves as an independent body to assist in the resolution of commercial disputes, thereby enhancing consumer trust in the financial system (Mania, 2015; Rule, 2020).

2. APPK: Enhancing Accessibility to Dispute Resolution Mechanisms

The APPK is a web-based system developed by OJK to facilitate consumer complaints and dispute resolution in the financial services sector. Launched on January 1, 2021, the platform allows consumers to submit inquiries, provide information, and file complaints online, making the process more accessible and efficient. Through APPK, consumers can monitor the status of their complaints and communicate directly with financial service providers. Indonesia.go.id. (2023, December 17)

Impact and Effectiveness

Since its implementation, APPK has significantly improved the handling of consumer complaints. Between January 1 and December 19, 2024, OJK received 410,448 service requests through APPK, including 33,319 complaints. These complaints encompassed various sectors, with 12,776 from banking, 11,948 from financial technology, and 6,958 from financing companies. (Kontan.co.id. (2025, January 9).

OJK's collaboration with LAPS SJK and the development of APPK represent significant strides in enhancing consumer protection and providing accessible, non-litigation solutions for financial disputes in Indonesia. These initiatives not only streamline the dispute resolution process but also bolster consumer confidence in the financial services sector.

CONCLUSION

The protection of investor rights in Indonesia's capital market remains a critical challenge despite the regulatory efforts of OJK. While existing frameworks, including transparency and disclosure regulations, fraud prevention measures, and alternative dispute resolution mechanisms, have contributed to improved market integrity, enforcement gaps and regulatory inefficiencies persist. Key challenges include weak legal enforcement, low financial literacy among retail investors, inadequate technological supervision, and bureaucratic coordination issues. Strengthening these areas is essential to enhancing investor confidence, ensuring market stability, and fostering economic growth.

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