

Preventive Measures Against Non-Performing Loans: Implementation of Prudential Principles in the Buy Now Pay Later (BNPL) Scheme Through Bank–E-Commerce Partnerships

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ABSTRACT

The financial sector in Indonesia has seen a very fast change to using digital technology. This has made it possible to have Buy Now Pay Later (BNPL) services where people can get money without needing credit cards. Banks that work with online shopping companies use BNPL plans to help more people use their financial services. However, these types of partnerships also bring large dangers: bad loans build up, moral hazard appears, and there are questions about the rules. We look at how legal systems and careful management rules work in BNPL partnerships through regular legal research methodology, studying law provisions and idea bases. Law No. 7/1992, changed by Law No. 10/1998 on Banking, sets out careful needs that OJK puts into action through Regulations No. 18/POJK.03/2016, No. 40/POJK.03/2019, No. 12/POJK.03/2021, and Circular Letter No. 34/SEOJK.03/2016 Banks put into practice careful standards by checking digital credit worthiness managing joined risks watching assets and checking partners from time to time Yet big problems stay: banks and platforms cannot share data easily regulatory power breaks up among many agencies and following the rules culture is still weak Careful ideas do more than meet rule needs they form the legal-ethical base that keeps public trust and financial safety Achieving good practice needs OJK Bank Indonesia and Kominfo to work together in their control actions guard consumers and make good digital money innovation possible.

ABSTRAK

Sektor keuangan Indonesia mengalami transformasi digital pesat yang memungkinkan layanan Buy Now Pay Later (BNPL) memberikan akses pembiayaan kepada konsumen tanpa memerlukan kartu kredit konvensional. Bank bermitra dengan platform e-commerce menggunakan skema BNPL untuk memperluas inklusi keuangan, namun kemitraan semacam ini menghasilkan risiko substansial: kredit macet terakumulasi, moral hazard muncul, dan ambiguitas regulasi tetap ada. Kami mengkaji bagaimana kerangka hukum dan prinsip kehati-hatian beroperasi dalam kemitraan BNPL melalui metodologi yuridis normatif, menganalisis ketentuan perundang-undangan dan landasan konseptual. UU No. 7/1992 sebagaimana diubah dengan UU No. 10/1998 tentang Perbankan menetapkan persyaratan kehati-hatian yang dioperasionalkan OJK melalui Peraturan No. 18/POJK.03/2016, No. 40/POJK.03/2019, No. 12/POJK.03/2021, dan Surat Edaran No. 34/SEOJK.03/2016. Bank menerapkan standar kehati-hatian dengan menilai kelayakan kredit digital, mengelola risiko terintegrasi, memantau aset, dan mengevaluasi mitra secara berkala. Namun hambatan signifikan masih ada: bank dan platform tidak dapat berbagi data secara bebas, otoritas regulasi terfragmentasi di berbagai lembaga, dan budaya kepatuhan tetap lemah. Prinsip kehati-hatian lebih dari sekadar memenuhi persyaratan regulasi—prinsip tersebut membentuk fondasi legal-etis yang mempertahankan kepercayaan publik dan stabilitas keuangan. Mencapai implementasi efektif menuntut OJK, Bank Indonesia, dan Kominfo mengoordinasikan upaya pengawasan mereka, melindungi konsumen, dan memungkinkan inovasi keuangan digital berkelanjutan.

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1. Introduction

The growing availability of the internet, the massive penetration of smartphones, and the emergence of digital financial innovations have pushed society toward more efficient cashless payment solutions. Digital payment systems and Buy Now Pay Later (BNPL) services are part of Indonesia's financial technology (fintech) revolution. Digital payment systems refer to all non-cash instruments such as electronic money (e-money), digital wallets (e-wallets), QRIS, interbank transfers, and digital banking (Tarantang *et al.*, 2019). BNPL allows consumers to buy goods or services now and pay later-within a certain period—either interest-free or with financing terms without needing a credit card (Putri *et al.*, 2025). Regulatory support from Bank Indonesia and the Financial Services Authority through payment system digitalization policies and fintech ecosystem strengthening has created an effective legal framework for BNPL development. Another factor that reinforces demand in the market for this service is consumer behavior changes that prefer speed, convenience, and flexibility in transactions (Hasanah & Noor Sayuti, 2024). Practical payment methods are preferred by millennials and Gen Z to avoid lengthy credit card procedures; therefore, BNPL enhances national financial inclusion by expanding financing access to groups previously underserved by formal credit systems (Hidayat, 2025). Technological advancement together with regulatory support as well as changing consumer behavior plus drives for financial inclusion have been some of the factors behind rapid growth in BNPL.

BNPL services in Indonesia have shown very dynamic developments. Until November 2024, it was recorded that around 16.4 million borrowers had 48.4 million active facilities for BNPL (Tan Glant Saputrahadi, 2025). By April 2025, OJK reported that financing institution credit for BNPL reached around IDR 21.35 trillion with active accounts numbering about 24.36 million; the non-performing financing ratio increased from 3.48% to 3.78% (OJK, 2025). The annual growth rate of users and the value of credit for this product remains at a high adoption level among younger populations at 25-30%. Even with such growth in numbers though, it makes up only about 0.27% of total national banking credit (OJK, 2025). The penetration of BNPL is way greater than that of credit cards—48.4 million facilities versus just 13.9 million credit cards as per October 2024 statistics (Liputan6, 2025).

Demographically, the millennial and Gen Z cohorts account for 48.27% and 39.94% of the total users, respectively. Female users comprise approximately 58.27% of total borrowers (iNewsLebak, 2025). The increasing default risk behind such growth is reflected in rising NPF ratios within the BNPL segment (OJK, 2025). The expansion broadens digital financing access but necessitates prudential principle implementation to protect national financial system stability. Though BNPL's share of total banking credit is small, steady yearly increases prove that BNPL has become one of the most dynamic instruments in digital payments. With millennials and Gen Z being the majority users and very high e-commerce adoption rates, this shows a move away from traditional systems to fast, easy, and inclusive services delivered digitally.

Fast growth comes from many connected things: improved digital technology; new government rules; changes in how people behave as consumers; innovations from fintechs; and more financial inclusion. One clear example is cross-sector collaborations, especially between financial institutions and digital platforms that have created some innovative partnership models in consumer financing services (Ramandini *et al.*, 2025). Bank-e-commerce partnerships are a type of digital financial innovation that aims to fulfill society's need for fast, easy, and flexible financing. The banks provide credit facilities through BNPL schemes while the e-commerce platforms act as the distribution channel and consumer verification intermediary. Consumers can buy goods with installment payments without using credit cards thus expanding access to financing for those who have been excluded from conventional banking services—the unbanked

population (Rahman *et al.*, 2024). The accessibility and economic opportunity provided by such partnerships also have implications in terms of increasing non-performing loans risk. This trend is driven by several factors: assessments of creditworthiness are usually not as rigorous as traditional banking systems; Consumer-oriented nature means that most credits under BNPL financing will be used for short-term non-productive purposes; weak control and oversight mechanisms between banks with their e-commerce partners create an environment of potential moral hazard for both service providers and users (Anggraeny *et al.*, 2023). The prudential principle is a fundamental banking doctrine aimed at maintaining stability in the financial system by preventing risks that could threaten sustainability within the banking industry. Banks are required to perform their intermediation function properly through risk management practices, objective assessment of debtor creditworthiness, and continuous supervision of credit quality (Ayu P & Wahyoeono, 2022).

Prudential principle in Indonesia is regulated explicitly in Law No. 7 of 1992 on Banking which has been amended by Law No. 10 of 1998 and supported by OJK Regulation No. 40/POJK.03/2019 related to Commercial Bank Asset Quality Assessment and OJK Regulation No. 18/POJK.03/2016 concerning the Implementation of Risk Management. The bank shall implement the prudential principle in every activity so that the public trust can be maintained and the stability of the national financial system can be achieved (Handayani, 2016). This study focuses on two issues: first, the legal aspect regarding the regulation of the prudential principle in credit extension activities based on banking legislation and OJK regulations; second, how the implementation of the prudential principle is carried out in cooperation between banks and e-commerce based on BNPL schemes, especially regarding efforts to prevent risks of non-performing loans. The application of this prudential principle is basically a prerequisite for maintaining the integrity of the financial system especially when it has to adapt to digital financing models that involve cross-sector collaboration.

2. Methodology

This study employs a normative juridical method, which focuses on analyzing the legal norms governing the prudential principle in banking activities, particularly within the Buy Now Pay Later (BNPL) scheme. The approaches used include the statute approach to examine relevant laws and regulations, and the conceptual approach to understand the legal concepts underlying the prudential principle and the partnership between banks and e-commerce platforms. The sources of legal materials consist of primary materials such as Law No. 10 of 1998 concerning Banking, Law No. 21 of 2011 concerning the Financial Services Authority (OJK), as well as OJK Regulations and Circular Letters related to risk management and asset quality assessment for banks. In addition, secondary materials such as legal literature, academic journals, and other scholarly sources are also utilized.

3. Results

3.1 Legal Framework of the Prudential Principle in Credit Extension Activities

The prudential principle serves as a fundamental doctrine and a key pillar of Indonesia's banking legal system, functioning to ensure that all banking business activities are conducted responsibly and in a risk-conscious manner, particularly in managing credit risk. Normatively, the regulation of the prudential principle is distributed across various levels of legislation, ranging from statutory laws to implementing regulations issued by the Financial Services Authority (OJK).

3.1.1. Law No. 7 of 1992 concerning Banking in conjunction with Law No. 10 of 1998

The first provision governing the prudential principle is found in Article 2 of Law No. 7 of 1992, as amended by Law No. 10 of 1998, which stipulates that "Indonesian banking, in conducting its business, shall be based on economic democracy and the application of the prudential principle." The provision affirms that every banking activity, whether in fund collection or credit distribution, must be carried out with due regard to the safety, soundness, and sustainability of the financial system (Budiman & Supianto, 2020). The prudential principle serves as a preventive mechanism to ensure that banks do not engage in speculative actions or take excessive risks that may jeopardize national financial stability. In credit extension, the provision obliges banks to conduct a thorough analysis of prospective borrowers before making lending decisions. Article 8(1) explicitly requires banks to "possess confidence, based on an in-depth analysis, in the good faith, capability, and capacity of the debtor to repay the debt in accordance with the agreed terms," representing a concrete manifestation of the prudential principle as it requires banks to conduct credit analyses before disbursing funds (Budiman & Supianto, 2020). The credit analysis process is commonly conducted through the 5C method, which consists of Character (assessing the personality, integrity, and good faith of the prospective debtor in fulfilling repayment obligations), Capacity (evaluating the debtor's ability to repay the loan based on income and business conditions), Capital (assessing the financial strength or capital owned by the debtor as an indicator of risk-bearing capacity), Collateral (reviewing the security or guarantees provided by the debtor as protection in case of default), and Condition of Economy (considering the general economic situation and the specific business sector of the debtor that may influence repayment capacity). By applying the method, banks can determine whether a prospective debtor is eligible for credit facilities and assess the potential risks to the bank's financial health. If a bank disregards the analysis and the loan subsequently becomes non-performing, such negligence may constitute a violation of the prudential principle (Akbar *et al.*, 2022). Articles 29(2) and (3) extend the prudential obligations to overall bank management, where Article 29(2) mandates that banks must maintain soundness levels that include capital adequacy, asset quality, management, liquidity, profitability, and solvency, while adhering to the prudential principle, and Article 29(3) requires banks to submit reports to the supervisory authority (currently the Financial Services Authority—OJK) regarding all of their business activities (Restianita *et al.*, 2024). These provisions illustrate that the implementation of the prudential principle does not end with the credit approval process but also encompasses supervision and reporting stages to ensure financial and operational soundness, meaning that banks must establish internal audit systems and compliance units to ensure that every business decision, including credit extension, aligns with legal requirements and sound risk management principles.

3.1.2. Law Number 21 of 2011 concerning the Financial Services Authority (OJK)

The reinforcement of the prudential principle is also reflected in Law Number 21 of 2011 concerning the Financial Services Authority (OJK). According to Article 7 (b) and (c), the OJK is mandated to regulate and supervise financial service activities in the banking sector, as well as to protect the interests of consumers and the public, signifying that OJK's authority is not merely administrative but also normative, ensuring that banks implement the prudential principle in accordance with established risk management standards. As a prudential regulator, OJK plays a vital role in maintaining the stability of the national financial system through strict regulation and supervision of banking activities. In credit disbursement, OJK's role is to ensure that each bank conducts proper creditworthiness assessments in compliance with prudential standards and avoids excessive lending to high-risk borrowers. Through risk-based supervision, OJK evaluates whether a bank's credit policies align with prudential principles, and if

any deviations are identified, OJK is authorized to impose warnings, administrative sanctions, or even revoke the bank's operating license for non-compliance (Gandasari *et al.*, 2025).

3.1.3. Financial Services Authority Regulations (POJK) and Circular Letters of the Financial Services Authority (SEOJK)

The Financial Services Authority (OJK), as the institution authorized to regulate and supervise the financial services sector, holds a central role in clarifying the implementation of the prudential principle within the banking sector through various implementing regulations. The prudential principle, which is generally stipulated in the Banking Law, is operationalized in more specific and technical terms through several OJK Regulations (POJK) and OJK Circular Letters (SEOJK). These regulations serve as derivative instruments that translate the normative mandates of the Banking Law into practical guidelines for banks in managing credit risk, liquidity risk, and operational risk. Through the POJK and SEOJK, OJK establishes measurable standards for credit evaluation, capital adequacy, asset quality assessment, risk management systems, and reporting obligations, with the purpose of ensuring that all banking activities adhere to prudential norms, thereby maintaining the soundness, transparency, and stability of the national banking system. Financial Services Authority Regulation (POJK) No. 18/POJK.03/2016 on the Implementation of Risk Management for Commercial Banks serves as the primary technical framework for the operationalization of the prudential principle within banking activities. According to Article 2, paragraph (1), every bank is required to implement effective risk management across all business activities, including the utilization of information technology, while Article 3 identifies eight key types of risk that must be mitigated: credit, liquidity, operational, legal, reputational, strategic, compliance, and return risk. Article 4, paragraph (1) stipulates that risk management implementation must encompass the processes of risk identification, measurement, monitoring, and control (Abubakar & Handayani, 2018). In credit disbursement, the provision underscores that every lending decision must be grounded in a thorough risk analysis, and the implementation of risk management must also account for credit exposure to third parties, including partnerships between banks and digital entities such as e-commerce platforms or fintech companies. The prudential principle embedded in the POJK extends beyond internal operations, requiring banks to apply the same level of diligence and oversight in inter-institutional collaborations, ensuring that potential defaults and systemic risks can be mitigated from the outset.

Financial Services Authority Regulation (POJK) No. 40/POJK.03/2019 on the Assessment of Asset Quality for Commercial Banks serves as a supervisory instrument that reinforces the obligation of banks to regularly and continuously assess the quality of their assets. According to Article 2, banks are required to perform ongoing asset quality assessments to maintain financial soundness and anticipate potential credit risks, while Article 5 paragraph (1) stipulates that the assessment must consider factors such as the timeliness of principal and interest payments, the debtor's financial capability, and the completeness of credit documentation. The regulation emphasizes that the prudential principle applies not only during the pre-lending stage but also in the post-lending phase, particularly in the supervision and monitoring of productive assets. In practice, banks are obliged to classify credit facilities such as current, special mention, substandard, doubtful, or loss, based on asset quality evaluations, and through the mechanism, the Financial Services Authority (OJK) can effectively monitor the Non-Performing Loan (NPL) ratio of each bank and assess the overall effectiveness of prudential principle implementation in maintaining financial system stability.

Financial Services Authority Regulation (POJK) No. 12/POJK.03/2021 on Commercial Banks serves as a legal framework governing all aspects of banking operations, including the mandatory implementation of the prudential principle across

every business activity. According to Article 2 paragraph (2), "Banks are required to conduct their business activities by observing the prudential principle, the know your customer principle, and the anti-money laundering principle" (Manggala *et al.*, 2024). The provision broadens the scope of the prudential principle, extending it beyond credit risk management to include compliance with transaction integrity and customer transparency, where the implementation of the Know Your Customer (KYC) principle is an integral part of prudential conduct, particularly in preventing the misuse of credit facilities by individuals or entities with malicious intent. In credit granting, the regulation underscores that the creditworthiness assessment process must not rely solely on the debtor's financial capacity but also on a thorough evaluation of their background, credibility, and transactional behavior, requiring banks to uphold the prudential principle from the initial stage of establishing business relations with potential clients, ensuring that risk exposure is minimized through responsible and transparent banking practices (Hasanah & Noor Sayuti, 2024).

Financial Services Authority Circular Letter No. 34/SEOJK.03/2016 on the Implementation of Risk Management for Commercial Banks, as the implementing regulation of POJK No. 18/POJK.03/2016, provides technical guidelines on the effective implementation of risk management within banking institutions, elaborating in greater detail on aspects such as the risk appetite framework, credit policy, internal control mechanisms, and risk reporting systems. Through the circular, the Financial Services Authority (OJK) emphasizes that every aspect of risk management must be supported by documentation that is legally accountable (Handrawan *et al.*, 2024). In credit disbursement, the circular serves as an instrument of accountability, ensuring that every lending decision can be audited both in terms of business judgment and legal compliance, where banks are not only required to exercise prudence in assessing debtors' creditworthiness but also to demonstrate that credit decisions have been made in accordance with legitimate risk management policies and procedures, reinforcing the prudential principle as both an operational foundation and a concrete legal supervisory instrument within the banking sector.

Based on the four aforementioned OJK regulations, the prudential principle within Indonesia's banking legal framework does not stand independently but forms an integral part of effective risk management and sound corporate governance (good corporate governance). POJK No. 12/POJK.03/2021 establishes the prudential principle as the general foundation of all banking activities, while POJK No. 18/POJK.03/2016 and SEOJK No. 34/SEOJK.03/2016 provide the technical framework for internal risk management implementation, and POJK No. 40/POJK.03/2019 reinforces supervisory mechanisms and asset quality assessment to ensure that banks consistently maintain a healthy credit portfolio. In credit distribution, the integration of these regulations creates a legal system designed to prevent the occurrence of non-performing loans (NPLs), where each stage of the credit process—ranging from customer assessment, risk analysis, disbursement, to ongoing monitoring—must adhere to the prudential principle to ensure that banking operations remain secure, transparent, and sustainable.

From the hierarchy of regulations—starting from statutory laws to OJK provisions—the implementation of the prudential principle is imperative and legally binding for all banking institutions. The principle is applied across four primary stages of credit administration: the pre-credit stage, where banks are required to conduct feasibility and creditworthiness analyses of debtors in accordance with Article 8 of the Banking Act; the disbursement stage, where prudence is applied through document verification, collateral assessment, and risk management implementation as stipulated in POJK No. 18/POJK.03/2016; the monitoring stage, which involves continuous evaluation of asset quality as regulated under POJK No. 40/POJK.03/2019; and the supervisory stage, realized through periodic reporting to OJK and internal auditing as mandated in Article 29(3) of the Banking Act and SEOJK No. 34/SEOJK.03/2016. The

prudential principle functions as a preventive legal mechanism aimed at maintaining a balanced relationship between the interests of banks, customers, and the stability of the national financial system, where within the framework of credit distribution, the principle serves as the primary safeguard against potential credit defaults that may lead to systemic risks threatening national economic stability.

4. Discussion

4.1 Implementation of the Prudential Principle in Bank–E-Commerce Partnerships within the Buy Now Pay Later (BNPL) Scheme

4.1.1. Concept of Bank–E-Commerce Partnership in the BNPL Scheme

The concept of partnership between banks and e-commerce platforms within the Buy Now Pay Later (BNPL) scheme emerged as a strategic response to the rapid development of the digital economy and the shifting behavior of consumers who increasingly demand instant, flexible, and accessible financing options. Essentially, the BNPL scheme represents a form of digitally based consumer credit, allowing customers to purchase goods or services and pay for them in installments over a predetermined period (Novendra, B., & Aulianisa, 2020). Within the mechanism, banks act as credit providers, extending financing facilities to consumers, while e-commerce platforms serve as transaction intermediaries and consumer verifiers, linking sellers, buyers, and financial institutions through an integrated digital system. The collaboration creates a symbiotic relationship: on one hand, banks gain access to a broader market segment through digital services; on the other hand, e-commerce platforms enhance customer loyalty and purchasing power by providing convenient payment solutions without the need for traditional credit cards.

Moreover, the partnership model reflects a broader trend of financial digitization and inclusion, wherein traditional financial institutions adapt to consumer-oriented fintech innovations. The integration of banking services with digital marketplaces not only democratizes access to credit but also transforms the traditional credit ecosystem—shifting from collateral-based lending to data-driven credit assessments supported by user behavior analytics, transaction histories, and digital identity verification. The BNPL partnership framework symbolizes the convergence of banking prudence and digital efficiency within Indonesia's evolving financial landscape.

4.2 The Implementation of the Prudential Principle in the BNPL Scheme

The implementation of the prudential principle in the Buy Now Pay Later (BNPL) scheme constitutes a crucial aspect that determines the sustainability and stability of the financial system amid the rapid advancement of digital innovation in the financial services sector. The prudential principle essentially requires every financial institution, particularly banks, to perform their intermediation functions responsibly by considering the risks that may arise from each credit provision. In the BNPL framework, the implementation of the principle becomes increasingly significant as the scheme integrates banking finance and e-commerce technology services, thereby exposing new potential risks such as bad loans, moral hazard, and personal data breaches. The implementation of the prudential principle in BNPL is not merely oriented toward regulatory compliance but also toward maintaining a balance between financial innovation, financial system stability, and consumer protection (Idris *et al.*, 2023).

According to Law No. 10 of 1998 concerning Banking, every bank is required to implement the prudential principle in its business activities, including in credit distribution through digital partnerships. The obligation is further elaborated in the Financial Services Authority Regulations (POJK) No. 18/POJK.03/2016 concerning Risk Management Implementation for Commercial Banks and No. 11/POJK.03/2022

concerning the Assessment of Asset Quality for Commercial Banks, which emphasize the significance of controlling credit, operational, and compliance risks in every financing activity. In the BNPL scheme, the implementation of the prudential principle is carried out through several stages (Rinaldi & Hendrawan, 2024).

The first stage in the implementation of the prudential principle in the BNPL scheme is the creditworthiness assessment, which aims to evaluate the consumer's ability and willingness to fulfill payment obligations. In the BNPL framework, the process is conducted digitally using transactional data, payment history, and consumer behavior profiles obtained from e-commerce platforms, which are then processed using risk assessment algorithms to determine a financing limit appropriate to the user's financial condition. Although the process is faster than in conventional credit systems, data validity and accuracy are crucial to prevent misjudgment that could increase the risk of default, requiring banks to ensure that their data verification and analysis systems meet the standards of security, objectivity, and compliance with the prudential principle (Abidin, 2025). The second stage involves the implementation of an integrated risk management system, which includes identifying, measuring, monitoring, and controlling risks arising from all BNPL financing activities, where the system should be designed to detect potential defaults that may result from users' consumptive behavior or fluctuations in digital economic conditions (Sulistiyandari *et al.*, 2024). Banks and e-commerce partners must establish an integrated risk control mechanism, including credit limit regulations, secure data management, and a proportional distribution of responsibilities between both parties, with the objective of creating a balance between expanding financing access and safeguarding financial stability (Handrawan *et al.*, 2024).

The third stage involves periodic supervision and evaluation of asset quality and business partner performance, conducted to assess the extent to which the BNPL portfolio remains healthy and free from non-performing financing. Periodic evaluations are necessary to enable banks to take immediate corrective actions if any indications of asset quality deterioration or partnership violations are detected. Within the framework of the prudential principle, the stage reflects the ongoing responsibility of financial institutions to maintain the reliability of digital financing systems and to ensure that partnerships between banks and e-commerce platforms adhere to good corporate governance standards.

Beyond the technical and regulatory dimensions, the implementation of the prudential principle in BNPL schemes also encompasses significant ethical and social dimensions. In the framework, banks and e-commerce platforms as financing partners bear a moral responsibility to ensure that financial innovations are not solely profit-oriented but also attentive to consumer welfare and the socio-economic stability of society. Ethical values such as transparency, accountability, and consumer protection serve as the fundamental pillars for maintaining a fair and balanced relationship between service providers and users. The principle of transparency requires that all information regarding service fees, interest rates, late payment penalties, credit tenors, and payment consequences be communicated clearly, honestly, and comprehensibly to consumers (Martadikusuma, 2025). A lack of transparency may lead to misunderstandings and potential financial losses for users. Meanwhile, accountability demands that financial institutions assume full responsibility for their financing policies and the management of users' personal data, including the oversight mechanisms of their digital business partners. Consumer protection, in turn, encompasses both legal and moral obligations to prevent unfair practices such as unethical debt collection, data privacy violations, or the provision of loans to users who do not meet financial eligibility criteria.

The implementation of these ethical dimensions plays a strategic role in preventing over-indebtedness, a common consequence of the ease of access to digital financing.

When consumers lack sufficient information or comprehend the financial risks associated with BNPL services inadequately, the likelihood of default increases, potentially creating social and reputational pressures for financial institutions (Abidin, 2025). The situation may also erode public trust in the digital financial system, even though trust constitutes the cornerstone of modern financial industry stability. The prudential principle should not be perceived as a barrier to innovation but rather as an ethical and preventive instrument designed to maintain a balance between financial technological advancement and the protection of public interests. Through the approach, financing innovations such as BNPL can evolve in a sound, sustainable, inclusive, and socially equitable manner.

4.3 Challenges in the Implementation of the Prudential Principle in the BNPL Scheme

The implementation of the prudential principle in banking activities serves as a fundamental basis for maintaining public trust and the stability of the national financial system. However, the emergence of digital financial innovations such as Buy Now Pay Later (BNPL) introduces new challenges in the implementation of the principle, particularly when banks engage in partnerships with e-commerce platforms. Although the legal framework, including the Banking Law and various Financial Services Authority (OJK) regulations, has provided normative guidance, its practical implementation remains complex, with several obstacles hindering the effective application of the prudential principle in the BNPL framework.

The first challenge concerns information asymmetry, or data gaps between banks and their e-commerce partners. In BNPL partnerships, e-commerce platforms typically serve as the primary interface that interacts directly with consumers and manages data on shopping behavior, transaction history, and payment patterns. However, such data are not always fully accessible to banks due to privacy protection concerns or limitations in system integration. According to Article 29 paragraph (2) of Law No. 10 of 1998 concerning Banking, banks are required to implement the prudential principle by carefully assessing the creditworthiness of potential debtors, yet the lack of access to detailed information makes it difficult for banks to accurately assess credit risks, potentially resulting in credit mismatches and a higher likelihood of default. In the regard, insufficient data transparency constitutes a major obstacle to the effective implementation of the prudential principle.

The second challenge relates to the suboptimal integration of digital systems between banks and e-commerce platforms. The BNPL scheme involves multiple interconnected technological systems, ranging from customer identity verification (Know Your Customer), credit risk analysis, to fund disbursement and transaction reporting. When these systems are not well-integrated, operational risks—such as data errors, reporting delays, or information manipulation—tend to increase. Furthermore, the supervision of e-commerce partners remains uneven. According to OJK Regulation No. 12/POJK.03/2021 concerning Commercial Banks, banks must ensure that their partners possess adequate governance and risk management frameworks, yet e-commerce platforms are not financial institutions under the direct supervision of OJK, resulting in fragmented regulatory oversight and creating a regulatory gap between the banking and digital sectors.

The BNPL system relies heavily on digital data and algorithms to determine creditworthiness (credit scoring), and challenges arise when the data used are not thoroughly verified. Many BNPL users lack formal credit histories in financial institutions, leading to reliance on behavioral data such as online shopping patterns or platform activity. However, such behavioral data do not always reflect a consumer's actual financial capacity. In accordance with OJK Regulation No. 18/POJK.03/2016 on Risk Management Implementation for Commercial Banks, banks are obligated to ensure the reliability of data before making credit decisions, yet overreliance on unverified third-party data undermines the prudential principle and increases the risk of non-performing

credit. Another complex challenge is the lack of coordination among supervisory authorities. The BNPL scheme exists in a "grey area" between the financial and digital commerce sectors, where banks operate under the supervision of OJK, while e-commerce platforms are regulated by the Ministry of Communication and Information Technology (Kominfo). The absence of coordinated supervision creates legal loopholes regarding accountability, data security, and dispute resolution in cases of default or contractual breach. The lack of a coherent coordination framework among regulators has led to inconsistencies in implementing the prudential principle within the hybrid sector, and in the long term, such gaps may affect financial stability, as risks originating from the digital sector could spill over into the formal banking system.

In addition to regulatory and systemic issues, internal challenges also arise in the form of a weak compliance culture. In practice, many financial institutions and technology companies prioritize innovation and market expansion over strengthening risk management frameworks. Article 34 of OJK Regulation No. 18/POJK.03/2016 stipulates that any new product or partnership must undergo a risk assessment prior to implementation, yet the rapid pace of digital innovation is often not matched by the readiness of supervisory structures, rendering the prudential principle merely an administrative formality rather than a substantive guideline for credit decision-making. Consequently, there is a growing potential for moral hazard, where banks or digital partners may take excessive risks to pursue user growth and short-term profits.

The various challenges in the implementation of the prudential principle in BNPL schemes highlight a persistent gap between normative legal provisions and practical realities. Although the prudential principle has a strong juridical foundation, its implementation continues to face difficulties in adapting to technological developments and increasingly complex digital business models. In BNPL partnerships, the effectiveness of the principle largely depends on the ability of banks to adjust their risk management mechanisms to the characteristics of digital ecosystems involving multiple actors and cross-platform data.

To ensure that the prudential principle is implemented effectively and consistently within BNPL partnerships between banks and e-commerce platforms, several strategic, integrative, and adaptive measures are required. First, establishing transparent, accurate, and secure data-sharing systems between banks and e-commerce platforms, supported by strict personal data protection standards, to enable risk analysis. Second, developing a collaborative regulatory framework among key authorities—particularly OJK, Bank Indonesia (BI), and Kominfo—to ensure regulatory alignment and clarity of supervisory responsibilities in BNPL partnerships. Third, strengthening periodic audits and risk evaluations to assess digital financing products in terms of compliance with the prudential principle as well as consumer protection aspects. The analysis demonstrates that the prudential principle functions not only as a regulatory instrument but also as an ethical and legal foundation for maintaining the stability of the financial system in the digital era. In the framework, the implementation of the prudential principle should be understood as a preventive measure to minimize moral hazard and to ensure the sustainability of a sound digital financing ecosystem. Regulatory adaptation and cross-sectoral synergy are key to maintaining the relevance and effectiveness of the prudential principle amid the ongoing transformation of digital finance.

5. Conclusion

The prudential principle in credit-granting activities is regulated under Law No. 7 of 1992 in conjunction with Law No. 10 of 1998 concerning Banking, and further elaborated through several OJK Regulations (POJK) such as POJK No. 18/POJK.03/2016, POJK No. 40/POJK.03/2019, POJK No. 12/POJK.03/2021, and

SEOJK No. 34/SEOJK.03/2016, which emphasize the obligation of banks to implement risk management in all business activities. These regulations ensure that the credit-granting process is conducted through proper feasibility analysis, verified disbursement, continuous asset quality monitoring, and ongoing supervision. Thus, the prudential principle serves as a preventive legal instrument to maintain banking soundness, prevent non-performing loans, and protect the stability of the national financial system.

The implementation of the prudential principle in the partnership between banks and e-commerce platforms under the Buy Now Pay Later (BNPL) scheme is carried out through digitally based creditworthiness analysis, integrated risk management, and periodic supervision and evaluation of asset quality and partner performance to ensure safe and controlled financing. However, this implementation faces several challenges, including limited information availability, system integration weaknesses, and regulatory coordination gaps between authorities. Therefore, the application of the prudential principle in the BNPL scheme must be reinforced through transparency, accountability, and consumer protection, to ensure that digital partnerships between banks and e-commerce operate in a sound, fair, and sustainable manner.

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