THE LEGAL UTILITARIANISM APPROACH IN THE REGULATION OF AGE VERIFICATION FOR FINTECH USERS: CASE DATA ANALYSIS AND STUDY ON UNDERAGE MISUSE BASED ON INDONESIAN REGULATION

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Abstract

The rapid growth of financial technology (fintech) in Indonesia has brought significant benefits in expanding financial inclusion, particularly for communities underserved by traditional banking. However, this progress also presents serious challenges, especially regarding user age verification. The ease of registering with only an uploaded ID card and selfie has enabled minors to misuse their parents' identities to access online loan or pay-later services, resulting in financial, psychological, and legal risks for families and fintech providers. Through the legal utilitarianism perspective, strict age verification is seen as a policy that produces the greatest benefit for society by reducing identity misuse, minimizing default risk, and strengthening public trust in the digital ecosystem. Challenges such as cybersecurity, data leakage, weak internal supervision, and illegal fintech proliferation indicate the need for integrated biometric systems, validation with the national population database (Dukcapil), and digital literacy within families. Therefore, strengthening the legal framework for age verification becomes an essential foundation toward a safe, inclusive, and socially beneficial fintech industry.

Keywords: Fintech, Age Verification, Legal Utilitarianism, Consumer Protection

INTRODUCTION

Indonesia, as an archipelagic nation consisting of more than 17,000 islands, faces a unique geographical challenge in extending financial services across its diverse and vast territory. The limitations of physical banking infrastructure in reaching remote areas have long resulted in financial exclusion for many communities. Against this backdrop, financial technology (fintech) has emerged as a transformative innovation capable of bridging the gap between conventional banking and public demand for accessible financial services. Through fintech platforms, users in both urban and rural regions can perform essential financial activities such as saving, borrowing, paying bills, and transferring funds—without direct interaction with banks. Companies such as Western Union and various domestic startups have expanded their operations to provide remittance, bill payment, and microcredit services to previously unbanked populations (O. Feriyanto et al., 2024).

The term *fintech* short for *financial technology* refers to the creative, efficient, and innovative use of digital technology in providing financial services. It symbolizes the fusion of finance and technology that enables faster, cheaper, and more convenient transactions. As noted by Nicoletti (2018), fintech represents the shift from traditional financial intermediation to technology-driven financial inclusion, where efficiency and accessibility are prioritized. The growth of fintech globally has been extraordinary; according to a report by Accenture (2014), global investment in the fintech sector reached USD 12.2 billion in 2014, up from only USD 930 million in 2008 (KPMG, 2016; Saksanova & Merlino, 2017).

In the Asian context, Indonesia ranks among the fastest-growing fintech markets. According to Ahmad (2024), Indonesia's fintech market expanded by 166 percent from USD 1.82 million in 2013 to USD 35.35 million in 2016 surpassing regional peers such as Malaysia and Thailand. This growth correlates strongly with the behavioral shift of Indonesian consumers toward digital solutions, driven by the rapid spread of smartphones and internet access. As a developing nation, Indonesia's fintech ecosystem has evolved from simple online payment tools to a diversified industry encompassing peer-to-peer (P2P) lending, digital wallets, investment platforms, and crowdfunding services.

The demand for fintech services is also linked to the limitations of conventional banking institutions. Stringent regulations, documentation requirements, and geographic barriers have left many Indonesians outside the formal financial system. As a result, fintech has filled this void by offering flexibility, ease of use, and quick approval processes. This democratization of finance has become particularly critical in promoting financial inclusion, a policy goal emphasized by the Indonesian government and the Otoritas Jasa Keuangan (OJK). Fintech allows broader participation in economic activity, stimulating growth while empowering micro, small, and medium enterprises (MSMEs) to access funding more efficiently.

The COVID-19 pandemic further accelerated this transformation. Restrictions on physical mobility forced a dramatic increase in digital transactions, with fintech serving as the backbone of Indonesia's cashless economy. During the pandemic, digital payment adoption surged, while online lending grew by over 100%, and e-commerce transactions increased by 50% (Yovie et al., 2023). This shift proved fintech's resilience and indispensability in supporting Indonesia's economic continuity during crises.

However, the rise of fintech has also introduced new risks and ethical dilemmas. One of the most pressing challenges concerns the misuse of fintech services by underage users. The simplified registration process requiring only a photo of an ID card and a selfie has allowed minors to manipulate identity verification by using their parents' personal data. Such acts lead to financial, psychological, and legal consequences for families, as children lack sufficient understanding of contractual obligations, interest rates, and digital debt management. From a legal standpoint, minors are not recognized as having full civil capacity under Indonesian law, meaning any contract they enter is subject to invalidation. This legal uncertainty creates potential disputes between families and fintech providers, undermining public confidence in digital financial services.

Furthermore, weak digital literacy among young users increases vulnerability to fraud, predatory lending, and impulsive consumption behavior. Without adequate parental supervision or regulatory safeguards, these users are exposed to potentially exploitative financial practices that may burden households and cause long-term financial distress. The issue, therefore, extends beyond individual misuse it reflects a broader challenge in the governance of Indonesia's digital financial ecosystem.

Addressing this issue requires a philosophical and regulatory foundation that balances innovation with protection. In this regard, the legal utilitarianism approach becomes highly relevant. As a philosophical framework, utilitarianism evaluates actions or policies based on their capacity to generate the greatest benefit for the greatest number. When applied to law, legal utilitarianism posits that every regulation should be assessed by its overall impact on social welfare, rather than its conformity to rigid formalities.

From this perspective, implementing strict age verification mechanisms in fintech is not merely a technical necessity it represents an ethical imperative aimed at maximizing public benefit. A well-regulated verification system can reduce identity theft, prevent underage financial abuse, and strengthen trust in digital transactions. It also supports the OJK's goal of fostering a responsible fintech industry that promotes financial inclusion while minimizing systemic risk.

Therefore, examining fintech regulation through the lens of legal utilitarianism provides deeper insight into how Indonesia can build an ethical, secure, and inclusive digital economy. By aligning technological advancement with social responsibility, the law functions as a tool not only to control but also to enhance collective welfare. This paper explores how the utilitarian legal approach can be applied to the issue of age verification within Indonesia's fintech ecosystem, analyzing relevant laws, regulatory frameworks, and social implications to propose a balanced model that upholds both innovation and public protection.

RESEARCH METHODS

This study applies a literature review (library research) method as an independent research approach. The research was conducted through a critical and comprehensive examination of various academic sources relevant to the topic, including journal articles, laws and regulations, and authoritative books. As emphasized by Pare et al. (2015) and Snyder (2023), a literature review functions not only as a theoretical foundation but also as a form of independent scientific inquiry that is capable of producing new insights and understandings of a specific issue. In this study, the literature review was designed systematically by identifying, selecting, and analyzing sources related to financial technology regulation, consumer protection, and the theory of legal utilitarianism.

The research method emphasizes that literature review can serve as a standalone scientific framework, not merely a preliminary stage in empirical research. This process involves systematic stages that include the exploration of relevant legal and philosophical sources, selection of valid and credible literature, analysis of interrelated theoretical and normative aspects, and synthesis of key findings into a coherent interpretation. Through this structured approach, the study aims to develop a conceptual understanding that bridges normative legal theory with practical regulatory challenges in Indonesia's fintech sector, particularly regarding age verification and consumer protection. The results of this analysis are expected to produce an integrative perspective that aligns utilitarian ethical principles with the goals of Indonesian law and policy in achieving social welfare through safe and responsible fintech development.

RESULT AND DISCUSSIONS

Theoretical Framework of Legal Utilitarianism

The philosophical foundation of this research is grounded in legal utilitarianism, a derivative of the broader utilitarian ethical theory that evaluates laws and actions based on their consequences. According to Jeremy Bentham, the legitimacy of any law depends on its ability to promote the greatest happiness for the greatest number. Bentham argued that the law must be designed as a social mechanism to maximize pleasure and minimize pain among citizens, making happiness and utility the ultimate standards for moral and legal evaluation. In his utilitarian jurisprudence, legislation functions as an instrument for shaping social behavior and ensuring that public policies yield measurable benefits for society.

Later, John Stuart Mill refined Bentham's ideas by introducing a qualitative dimension to the concept of happiness. Mill differentiated between higher and lower pleasures, arguing that intellectual and moral satisfactions are of greater value than mere physical enjoyment. This improvement marked a shift from classical to rule-based utilitarianism, in which moral and legal rules are justified not only by the outcomes they produce but also by their ability to sustain long-term social welfare and justice (Jarosla, 2024).

In the modern era, utilitarianism continues to serve as the philosophical basis for public law, ethics, economics, and governance. According to Radha (2022), the core of legal utilitarianism lies in three interrelated principles: consequentialism, the maximization of utility, and impartiality. Consequentialism posits that the moral worth of an act or regulation is determined by its social outcomes. The maximization of utility requires that policies generate the greatest net benefit for the majority of people, while impartiality demands that each individual's welfare be weighed equally in the formulation of laws. These principles collectively transform utilitarianism from a moral doctrine into a policy-oriented legal philosophy, capable of providing rational justification for regulations that prioritize collective benefit over individual privilege.

From this perspective, legal utilitarianism becomes an effective analytical tool in assessing whether laws truly function as instruments of social welfare. It directs lawmakers to focus on the tangible results of policy implementation rather than the mere procedural correctness of legislation. This pragmatic dimension makes utilitarianism particularly relevant in addressing contemporary legal challenges such as digital governance, financial technology regulation, and consumer protection—fields where rapid innovation must be balanced with ethical responsibility and legal certainty.

Application of Legal Utilitarianism in Public Policy

Utilitarianism's influence extends significantly to modern policymaking, where it serves as the ethical foundation for laws that aim to achieve measurable improvements in social welfare. As stated by Radha (2022) and Snyder (2023), utilitarian reasoning prioritizes effectiveness and outcome over mere intention. This is evident in various public policy domains, where laws are evaluated through cost–benefit analysis (CBA) to determine whether the benefits of regulation outweigh its costs.

In public health, environmental protection, and economic redistribution, utilitarian logic frequently guides government action. For example, environmental taxation policies and renewable energy incentives are justified because they reduce long-term harm and improve public welfare, even if they temporarily impose economic burdens. Similarly, during the COVID-19 pandemic, governments worldwide adopted restrictive measures such as lockdowns and vaccination mandates that limited personal freedoms. Yet, from a utilitarian viewpoint, these actions were ethically legitimate because they prevented greater harm and saved millions of lives. Such policies reflect the principle of collective benefit, where temporary individual sacrifices are justified by their broader contribution to societal well-being.

In the field of welfare economics, utilitarian principles are manifested in redistributive policies like progressive taxation and social safety nets. These mechanisms aim to enhance total happiness by reducing inequality and preventing extreme poverty. The objective is not merely equality for its own sake but rather the maximization of utility through a more balanced distribution of resources. Legal utilitarianism thus provides the philosophical justification for social policies that align moral obligations with empirical effectiveness.

Within the legal system, utilitarianism transforms law into a dynamic mechanism for social optimization. The legitimacy of legal norms is no longer based solely on their conformity to moral or historical precedent but on their proven capacity to increase overall welfare. This framework directly informs regulatory design in sectors such as finance, technology, and data protection, where risk management, consumer safety, and innovation must coexist in equilibrium.

The Principle of Utility in Fintech Consumer Protection

The rise of financial technology (fintech) has revolutionized economic transactions in Indonesia, enabling easier access to financial services across diverse demographics. However, the expansion of fintech also introduces potential risks—particularly those related to user protection, data privacy, and age verification. From the perspective of legal utilitarianism, these challenges must be addressed by designing policies that maximize collective welfare while minimizing potential harm.

In fintech regulation, the principle of utility serves as the cornerstone of consumer protection. As observed by Nicoletti (2018) and Ahmad (2024), the success of fintech lies not only in technological innovation but also in the creation of user trust and systemic safety. Consumer protection policies, therefore, are justified under utilitarian reasoning because they produce broader social benefits—enhancing public confidence, preventing exploitation, and sustaining the long-term stability of the digital financial ecosystem.

The Indonesian government, through Otoritas Jasa Keuangan (OJK) and Bank Indonesia (BI), has introduced regulations emphasizing user verification, transparency, and risk management. OJK Regulation No. 10/POJK.05/2022, for instance, mandates that all fintech providers implement Know Your Customer (KYC) and electronic Know Your Customer (e-KYC) systems to verify user identity and prevent fraud. These regulations reflect utilitarian logic, as they aim to protect both consumers and the integrity of the financial system by reducing risks of money laundering, underage access, and identity misuse.

From a utilitarian standpoint, stricter compliance mechanisms though they may increase operational costs for companies ultimately yield greater public benefit by ensuring safety, fairness, and efficiency. In line with the principle of impartiality, these measures safeguard vulnerable users, such as minors, who are often unable to fully comprehend contractual obligations or financial risks. By minimizing harm and promoting confidence in digital finance, Indonesia's fintech regulations embody the core spirit of legal utilitarianism: the pursuit of collective happiness through the rational application of law.

Legal Framework for Age Verification in Indonesia

The issue of age verification in fintech platforms is a central focus of this study because it directly concerns the balance between innovation and social responsibility. The ease of digital access—particularly in online lending and “pay later” services—has led to numerous cases of underage misuse of fintech accounts using parental identities (Yovie et al., 2023). This phenomenon results in both financial and psychological harm to families and undermines public trust in digital financial systems.

Indonesian legal instruments have gradually adapted to address this issue. Article 27 of the 1945 Constitution guarantees equality before the law, while the Child Protection Law (Law No. 35 of 2014) explicitly obliges the state and private entities to prevent economic exploitation of minors. Meanwhile, fintech-specific regulations, including OJK Regulation No. 10/POJK.05/2022 and Bank Indonesia Regulation on Payment Systems, require financial service providers to verify the age and identity of users through integrated data systems such as the Dukcapil national registry.

However, the effectiveness of these measures depends heavily on technological capacity and institutional coordination. As noted in several legal analyses, data integration across agencies remains fragmented, and many fintech providers still rely on basic document uploads rather than biometric verification. From a utilitarian legal perspective, this regulatory gap diminishes the law’s capacity to maximize welfare, as it allows continued misuse and exposes minors to potential harm. Thus, the improvement of verification systems, cybersecurity, and cross-sectoral collaboration between OJK, BI, and Dukcapil is necessary to realize the utilitarian objective of comprehensive social protection.

Ethical and Legal Evaluation: Utilitarian Balance Between Innovation and Protection

The tension between innovation and regulation in fintech governance reflects a broader ethical dilemma: how to promote technological progress without compromising public welfare. Utilitarianism offers a balanced answer to this question by framing the law as an instrument of collective optimization rather than restriction. In this sense, regulations such as mandatory age verification may temporarily limit market expansion but generate much greater long-term benefits protecting minors, ensuring legal certainty, and enhancing consumer trust.

Under the principle of maximum utility, the temporary inconvenience imposed on companies is outweighed by the prevention of widespread harm. The law, therefore, functions as both a moral safeguard and an economic stabilizer. By integrating utilitarian ethics into fintech regulation, Indonesia can ensure that technological innovation remains aligned with societal values and legal justice. As Radha (2022) and Jarosla (2024) emphasize, utilitarian lawmaking requires continuous evaluation of outcomes, encouraging policymakers to revise and adapt regulations in line with evolving risks and benefits.

Through this framework, age verification in fintech is not only a compliance measure but also a manifestation of ethical responsibility. It reflects the moral obligation of both the state and private sector to protect vulnerable users while fostering innovation that benefits society as a whole.

CONCLUTION

The rapid development of financial technology (fintech) in Indonesia demonstrates how innovation can redefine the financial landscape and expand access to economic opportunities. However, this digital transformation also generates new forms of vulnerability, particularly concerning the misuse of fintech services by underage users. The ease of online registration through minimal verification requirements allows minors to access loan or payment platforms by using their parents’ identities. This misuse results in financial, psychological, and even legal consequences for families, while also eroding public trust in digital financial systems.

Applying the legal utilitarianism approach provides a philosophical and normative foundation for addressing this problem. Utilitarianism, as a moral and legal theory, requires that every law or policy be evaluated based on its ability to produce the greatest good for the greatest number. In the context of fintech governance, this means that regulations must be designed not merely to control innovation but to ensure that technological progress maximizes collective welfare. The implementation of age verification mechanisms aligns perfectly with this principle because it provides preventive protection for minors, ensures accountability among service providers, and strengthens the ethical and legal integrity of the fintech ecosystem.

From a utilitarian perspective, the short-term costs of implementing strict verification systems such as increased compliance expenses or reduced market entry speed are far outweighed by the **long-**term benefits. These include reduced rates of misuse, higher consumer confidence, and sustainable market stability. The law thus serves not only as a tool of regulation but also as an instrument of social optimization. Through the proper application of utilitarian principles, fintech governance can achieve a moral equilibrium between innovation and protection.

Moreover, the legal framework in Indonesia consisting of OJK Regulation No. 10/POJK.05/2022, Bank Indonesia regulations, and the Child Protection Law has established the normative foundation for age verification and digital consumer protection. However, gaps still exist in the form of fragmented inter-agency coordination, limited biometric integration, and the proliferation of illegal fintech platforms. To maximize public benefit, a coordinated regulatory strategy between OJK, BI, and the Directorate General of Population and Civil Registration (Dukcapil) is essential. The integration of biometric e-KYC systems with the national population database would ensure a more reliable and efficient verification process, preventing underage misuse at its root.

In addition, enhancing digital literacy within families becomes a key preventive measure. Parents must understand the potential risks associated with online financial services and guide their children in responsible digital behavior. Education and public awareness campaigns about the importance of data privacy, financial responsibility, and lawful fintech use will reinforce the ethical foundation of digital citizenship.

Ultimately, the utilitarianism approach to law enables policymakers to view fintech regulation as part of a broader moral commitment to public welfare. The strength of this approach lies in its adaptability laws may evolve as technology advances, yet their guiding purpose remains the same: to produce the greatest overall good. Therefore, strengthening age verification systems, ensuring inter-institutional coordination, and cultivating ethical digital literacy are necessary steps toward realizing a safe, inclusive, and sustainable fintech industry in Indonesia.

The legal utilitarianism framework thus transforms fintech regulation from a reactive measure into a proactive instrument for justice and welfare. By ensuring that every policy yields the maximum social benefit, Indonesia can continue to promote innovation without sacrificing the fundamental rights and protection of its citizens. The harmony between technological advancement and moral responsibility embodied in the utilitarian ideal of *the greatest good for the greatest number* represents the ultimate goal of an ethical, progressive, and socially just digital economy.

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