

The Importance of Consumer Protection in the Insurance Sector in Indonesia

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Abstract: Consumer protection plays a crucial role in the insurance industry due to the complex, long-term, and trust-based nature of insurance products. Consumers are often in a vulnerable position because of limited access to information and a lack of understanding of policy terms, which increases the risk of losses, especially during claim settlement processes. This study aims to analyze the factors that influence the importance of consumer protection in Indonesia's insurance sector and to examine the role of the Financial Services Authority (OJK) as the regulatory and supervisory body in financial services. The findings indicate that low financial literacy, information asymmetry, and the dominance of standard contracts are key factors that underscore the need for consumer protection. Meanwhile, OJK plays a strategic role through regulation, supervision, dispute resolution, and financial education for consumers. This study concludes that the effectiveness of consumer protection in the insurance sector depends largely on the synergy between strong regulations, consistent supervision, and improved public awareness of consumer rights.

Keywords: consumer protection; insurance; Financial Services Authority; financial literacy; claims.

Received: August 17, 2025

Revised: August 31, 2025

Accepted: September 16, 2025

Published: September 30, 2025

Curr. Ver.: September 30, 2025



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1. Introduction

Every essential aspect of human life is not always in a safe condition but is often surrounded by various threats. The uncertainty that creates a sense of insecurity regarding potential losses is referred to as risk. In other words, risk is an event that may cause loss and generate uncertainty. One way to manage risk is by transferring it to another party, which gives rise to the concept of insurance. Insurance is established through a risk transfer agreement between the policyholder and the insurance company, known as an insurance contract.

Insurance is a method of transferring risk through the payment of premiums. Regulations regarding insurance can be found in the Commercial Code as well as outside the Commercial Code. Insurance serves as a way to replace small and certain losses with larger and uncertain ones. Law Number 40 of 2014, hereinafter referred to as the Insurance Law, defines insurance as an agreement between two parties, namely the insurance company and the policyholder, which serves as the basis for the receipt of premiums by the insurance company as compensation. In the context of insurance, risk is defined as the uncertainty regarding potential loss. Therefore, the concept of risk encompasses two main elements:

uncertainty and the possibility of loss. The policyholder's trust in the insurance company is manifested in the transfer of risk from the customer or insurance buyer to the insurance company as the service provider. Before officially becoming a policyholder, an individual must undergo several procedures aimed at ensuring they understand the obligation to pay premiums, which are predetermined amounts of money. In return, the insurance company is responsible for providing financial compensation in the event of certain occurrences related to health, such as illness or accidents.

In the insurance sector, the terms underwriting process and risk assessment process are commonly used. The underwriting process is the evaluation of risks conducted by the insurance company to determine whether an insurance application can be accepted, under what conditions, as well as the determination of premium amounts and other requirements. This process is crucial for maintaining a balance between the company's profitability and the protection against the insured risks.

The stages of the underwriting process include:

Submission of Insurance Proposal

The prospective insured completes an application form containing personal information, details of the insured object, and related risk conditions.

Data Collection and Verification

Supporting documents such as proof of ownership, photos of the object, survey results, and claim history are verified.

Risk Assessment

The likelihood of risk occurrence and the potential losses are assessed to determine the premium amount and coverage.

Underwriting Decision

Based on the assessment results, the company will accept, reject, or accept with adjustments (e.g., higher premiums or risk exclusions).

Policy Issuance

The insurance policy is issued as a legally binding contract between the insurer and the insured.

Meanwhile, the risk assessment process is part of underwriting, which aims to identify and analyze potential losses arising from a risk. This assessment is important to enable insurance companies to avoid catastrophic or uninsurable risks.

The steps of the risk assessment process include:

Risk Identification

Determining the types of risks such as accidents, theft, fire, or physical damage to the insured object.

Risk Evaluation

Assessing how frequently the risk may occur and how severe its impact could be.

Risk Classification

Risks can be divided into three categories: first, *standard risks*, which can be accepted without many conditions; second, *sub-standard risks*, which require additional premiums or special clauses; and third, *uninsurable risks*.

Risk Mitigation Proposals

In some cases, the company may recommend risk-reduction measures (e.g., installing alarms, GPS, or fire extinguishers).

The insurance industry plays a crucial role in providing protection against unexpected financial risks for both individuals and entities. Policyholders rely on insurance companies to provide financial guarantees and to settle claims when events covered by the policy occur. Consumer protection in the insurance sector has become a critical issue given the complexity of insurance products and the potential imbalance of information between insurance companies and policyholders. Consumers often face various challenges, such as a lack of understanding regarding policy cancellations, complicated claim procedures, and unfair practices by insurance companies, including non-transparent claim rejections and discrepancies between marketing promises and actual outcomes.

In Indonesia, various cases of insurance claim rejections by insurance companies frequently occur. One such example was the case involving a life insurance policyholder of PT Allianz, related to a deceased mother. Her heir, Riniwati, stated that the insurance claim on behalf of her mother was rejected by Allianz on the grounds of a written statement made by her mother's younger sibling, declaring that the mother had suffered from diabetes mellitus for three years. This implied that she had been suffering from diabetes long before the insurance policy began. However, Riniwati emphasized that her mother had no medical history of the disease prior to the commencement of the policy on September 29, 2020, and that she passed away on April 26, 2021.

The rejection of the claim resulted in financial losses for the insured party, thereby creating the need for protection of their rights. Legal protection reflects the functioning of the law in realizing its objectives, namely justice, utility, and legal certainty. Legal protection refers to the safeguards provided to legal subjects in accordance with applicable laws, whether preventive or repressive in nature, and whether established in written or unwritten forms, in order to uphold the rule of law.

Regulations regarding consumer protection in the insurance sector in Indonesia are stipulated in Law No. 40 of 2014 on Insurance, along with various implementing regulations issued by the Financial Services Authority (Otoritas Jasa Keuangan/OJK). These regulations aim to ensure that consumers' rights are well protected, including the right to clear information, transparency, and fair and effective dispute resolution mechanisms. Nevertheless, the implementation of consumer protection still faces various challenges, such as aggressive business targets in insurance marketing, inadequate explanations provided to customers, and the impact of financial connectivity within the insurance sector. Therefore, it is important to emphasize the urgency of consumer protection in the insurance sector in order to build public trust in the industry. Optimal consumer protection not only provides a sense of security for policyholders but also contributes to creating stability and fostering growth in Indonesia's insurance industry.

In light of these issues, the writer is interested in discussing the factors that influence the importance of consumer protection in Indonesia's insurance industry, as well as the role of the Financial Services Authority (OJK) in providing protection for insurance consumers in Indonesia.

2. Research Method

Based on the issues raised, this research employs a normative juridical legal research method. This method is carried out by analyzing, studying, and interpreting legal norms contained in legislation related to the legal issues discussed. The study will examine the regulations concerning the importance of consumer protection in Indonesia's insurance sector, with this type of normative juridical research focusing on how legal rules or positive law norms are applied.

According to Soerjono Soekanto's parameters on normative legal research, this type of research is rooted in the characteristics and scope of the legal discipline, which is understood as a system of thought about reality. The legal discipline encompasses prescriptive disciplines as well as other branches of law.

By applying this research method, it is expected that a more comprehensive understanding can be gained regarding the importance of consumer protection in Indonesia's insurance sector.

3. Result and Discussion

Factors Influencing the Importance of Consumer Protection in the Insurance Industry in Indonesia

The insurance industry plays an important role in supporting the economic stability of society. However, information asymmetry, product complexity, and low financial literacy place consumers in a vulnerable position. Legal protection thus becomes a primary instrument in ensuring justice and legal certainty for consumers.

Consumer protection is one of the crucial aspects in the financial services sector, including within the insurance industry. Insurance is essentially an agreement between two parties that is built on trust, where the insured pays premiums with the expectation of receiving benefits or compensation if a certain event occurs. In practice, however, the legal relationship between the consumer (insured) and the insurance company (insurer) does not always operate in a balanced manner.

In Indonesia, the prevalence of claim disputes, rejected claims, and consumers' lack of awareness of policy contents illustrates the weakness of consumer protection in the insurance sector. Consumers often find themselves in a disadvantaged position, whether in terms of information, contract comprehension, or bargaining power with insurance companies. The contracts offered to consumers are usually standard-form agreements that cannot be negotiated, which may harm those who do not fully understand their terms.

Consumer protection is a vital element in maintaining the balance between business actors and society in economic activities, particularly in the financial services sector such as insurance. The insurance industry has unique characteristics as it relies on a long-term relationship built on trust between the insured and the insurer. In practice, however, this relationship often places consumers in a weaker position, whether in terms of access to information, understanding the content of the policy, or bargaining power during the contractual process. The large number of insurance claim disputes highlights consumers' vulnerability to potential business misconduct. Consumers frequently encounter issues such as claim rejections, delays in benefit payments, or a lack of understanding of policy terms and conditions. This is inseparable from the fact that most insurance policies are unilaterally drafted by companies and offered in the form of standard contracts that cannot be negotiated.

In addition, insurance products have a complex structure and often contain numerous technical terms and exclusion clauses, which are difficult for the general public to understand. This situation is exacerbated by the still low level of financial literacy in Indonesian society. Based on the 2022 National Survey on Financial Literacy and Inclusion conducted by the Financial Services Authority (OJK), the national financial literacy index reached only 49.68%, indicating that nearly half of the population does not yet have adequate understanding of financial products and services, including insurance.

As the number of consumers using insurance services continues to grow, the urgency of protecting consumer rights becomes increasingly significant. Therefore, the state, through legal instruments, must be present to provide fair, balanced, and accountable protection. Regulations such as Law No. 8 of 1999 on Consumer Protection and Law No. 40 of 2014 on Insurance serve as the legal foundation for safeguarding consumer rights and regulating the obligations of business actors.

Consumer protection is a vital element in the insurance industry, particularly given the long-term and trust-based nature of insurance products. In Indonesia, there are several key factors that drive the importance of legal protection for consumers in this sector, namely:

Information Asymmetry

In insurance contracts, there is an imbalance of information between insurance companies as business actors and consumers as the insured. Consumers generally lack sufficient knowledge about the details of the policy, including exclusion clauses and claim procedures, which may disadvantage them when filing claims.

Complexity of Insurance Products

Insurance products are inherently complex, containing technical terms and legal clauses that are difficult for the general public to understand. This complexity creates obstacles in fully comprehending consumer rights and obligations.

Low Financial Literacy

One of the most common issues in the insurance industry is claim disputes, where consumers feel disadvantaged because their claims are either rejected or not paid as expected. These disputes highlight the need for protection mechanisms that ensure fairness and legal certainty for consumers.

High Potential for Claim Disputes

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Weak Consumer Bargaining Position

As the weaker party in terms of both economy and information, consumers lack equal bargaining power with insurance companies. Generally, policies are unilaterally drafted by companies, while consumers can only accept or reject them (standard-form contracts), which creates the potential for abuse of dominant position by business actors.

Regulatory Developments and the Need for Legal Certainty

The existence of laws such as Law No. 8 of 1999 on Consumer Protection and Law No. 40 of 2014 on Insurance emphasizes the importance of legal guarantees for consumer rights while also promoting sound and transparent business practices.

The Active Role of the Financial Services Authority (OJK)

OJK, as the supervisory body of the financial services sector, plays a major role in protecting consumers by providing complaint services, education, and supervision of the behavior of financial service providers. OJK has also issued consumer protection regulations through OJK Regulation No. 6/POJK.07/2022 concerning Consumer and Public Protection in the Financial Services Sector.

Consumer protection in the insurance industry in Indonesia is highly important and urgent. Factors such as information asymmetry, weak bargaining positions, product complexity, low financial literacy, and the increasing number of claim disputes emphasize the need for a strong and effective protection system. It is necessary to enhance public education, ensure transparency from insurance

companies, and enforce strict legal measures to guarantee justice and legal certainty for consumers.

The Role of the Financial Services Authority (OJK) in Providing Protection for Insurance Consumers in Indonesia

In the financial services industry, particularly in the insurance sector, consumer protection is a legal necessity that cannot be overlooked. The complexity of insurance products, the low level of financial literacy among the public, and the high potential for claim disputes form the primary background for the importance of an institution with the authority to ensure business actors' compliance with consumer protection principles. In Indonesia, this institution is the Financial Services Authority (OJK), which was established under Law Number 21 of 2011 concerning the Financial Services Authority.

OJK's mandate is not limited to supervising the financial services sector but also extends to protecting the interests of consumers and the public. This role is especially crucial in the context of the insurance industry, where consumers are often in a weaker position due to limited understanding of policy contents, information asymmetry, and standard contracts that frequently provide no room for negotiation. As a result, many consumers suffer losses from claim rejections, delays in benefit payments, or non-transparent business practices by insurance companies.

To respond to these challenges, the Financial Services Authority (OJK) has established various consumer protection regulations, provided complaint and dispute mediation services, and implemented nationwide financial education and literacy programs. OJK also collaborates with the Alternative Dispute Resolution Institution for the Financial Services Sector (LAPS-SJK) as a forum for resolving disputes outside the courts. This comprehensive role of OJK demonstrates the importance of institutional strengthening in ensuring consumer rights as well as maintaining the stability and integrity of the national insurance industry.

As an independent institution established under Law Number 21 of 2011, the Financial Services Authority (OJK) holds broad authority to regulate, supervise, and protect the financial services sector, including the insurance industry. In the context of consumer protection, OJK plays a strategic role in ensuring that insurance companies conduct business practices that are sound, transparent, and not detrimental to the public as financial services users.

The duties and authorities of the Financial Services Authority (OJK) include:

Consumer Protection Regulation

OJK has the authority to establish and supervise the implementation of regulations aimed at protecting financial services consumers, including those in the insurance sector. One of the key regulations ensures consumers' rights to clear information, complaint services, dispute resolution, and fair treatment. It also regulates the obligations of financial service providers to transparently explain product information, including risks, benefits, costs, and claim procedures, so that consumers are not disadvantaged due to misperceptions about insurance products.

Supervision of Insurance Business Practices

OJK actively supervises the operational activities of insurance companies through routine oversight and field inspections. If violations of consumer protection provisions are found, OJK may impose administrative sanctions up to the revocation of business licenses. This is essential to ensure that business actors do not abuse their dominant position, such as unilaterally rejecting claims or interpreting policy clauses in a way that harms the insured.

Provision of Complaint and Dispute Resolution Services

OJK operates a Consumer Services system that facilitates complaints from the public who have been disadvantaged by financial service providers. If no resolution is reached at the company's internal level, consumers may submit disputes to the Alternative Dispute Resolution Institution for the Financial Services Sector (LAPS-SJK). LAPS-SJK was established to resolve disputes in a cheaper, faster, and more efficient manner compared to court proceedings.

Enhancing Financial Literacy and Education

OJK also implements various educational programs to improve consumer literacy, enabling them to make financial decisions in an informed and responsible manner. Based on the 2022 National Survey on Financial Literacy and Inclusion, Indonesia's financial literacy index only reached 49.68%. This highlights the necessity of OJK's continuous educational approaches through campaigns such as

Yuk Nabung Asuransi (Let's Save with Insurance), *Financial Clinic*, and Integrated Consumer Education.

Inter-Agency Collaboration and Law Enforcement

From the above explanation, it can be concluded that the Financial Services Authority (OJK) holds a highly strategic role in providing protection for insurance consumers in Indonesia. This function is carried out through the establishment of regulations, supervision of business activities, dispute resolution, public education, and law enforcement. Such a role is not only aimed at safeguarding the rights of individual consumers but also at maintaining the stability and credibility of the insurance industry as a whole.

4. Conclusions

Consumer protection in the insurance industry in Indonesia is a crucial aspect influenced by various factors, such as the low level of financial literacy among the public, the imbalance of power between companies and consumers, and the increasing number of claim disputes that disadvantage policyholders. These conditions necessitate the presence of effective regulations and supervisory institutions to safeguard consumer rights.

The Financial Services Authority (OJK), as the institution authorized by law, plays a central role in ensuring comprehensive consumer protection. This role is carried out through the issuance of consumer protection regulations, supervision of insurance business activities, facilitation of dispute resolution through LAPS-SJK, and the enhancement of public financial literacy. Through these functions, OJK not only serves to maintain financial system stability but also ensures that consumer interests are protected fairly and proportionally.

Systematic efforts are required from both OJK and insurance industry players to continuously improve public financial literacy and inclusion, particularly regarding the understanding of insurance products. In addition, insurance companies must prioritize the principles of transparency, accountability, and equitable service to minimize claim disputes. OJK also needs to strengthen its supervisory capacity and the effectiveness of law enforcement against business actors who fail to comply with consumer protection principles. On the other hand, the public is expected to be more proactive in understanding their rights as consumers and utilizing the complaint and dispute resolution mechanisms that have been provided.

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