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From regulation to trust: Governance pathways in digital pawnshop transformation

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ABSTRACT

Background: Pawnshop institutions play an important role in expanding financial access for low- and middle-income communities. In the era of digital finance, regulatory compliance alone is insufficient to sustain institutional legitimacy, as public trust increasingly depends on how governance principles are implemented in practice. Existing studies on pawnshop institutions remain fragmented, with limited conceptual integration of regulation, governance, and institutional trust in the Indonesian regulatory context. **Methods**: This study adopts a qualitative conceptual and policy-oriented research design based on secondary legal, policy, and scholarly sources. The analysis synthesizes governance theory, regulatory governance, institutional trust, digital finance literature, and Indonesian regulatory documents through thematic coding, thematic synthesis, and conceptual mapping. **Findings:** The study shows that regulatory frameworks provide a necessary legal foundation but do not automatically generate public trust. Trust is shaped by governance practices related to transparency, accountability, ethical conduct, fairness, and communication clarity, particularly in digital service delivery where information asymmetry may increase. Governance practices function as mediating mechanisms that translate regulatory requirements into institutional behavior that can be understood and trusted by the public. **Conclusion**: Digital pawnshop transformation requires a shift from compliance-centered regulation toward governance arrangements that explicitly build and sustain public trust. **Novelty/Originality of this article:** This article offers an integrative governance-mediated trust framework and pathway model for strengthening legitimacy in digitally transforming pawnshop institutions.

KEYWORDS: digital finance; governance; pawnshop institutions; public trust; regulation

1. Introduction

Financial institutions are not only economic intermediaries but also trust-based institutions. Their core functions, including liquidity provision, risk management, savings mobilization, credit allocation, and financial inclusion, depend on the willingness of individuals and communities to engage with systems that they cannot fully observe or technically evaluate. In this sense, financial services involve a structural trust problem: consumers must make decisions under conditions of uncertainty, incomplete information, and unequal institutional power. This problem becomes particularly important in financial sectors that serve low- and middle-income communities, where access to formal credit is often limited and where consumers may rely on financial institutions not only for economic transactions but also for short-term resilience in moments of need.

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The legitimacy of financial institutions is commonly supported by regulation. Regulatory frameworks define the legal authority of institutions, determine permissible financial activities, establish consumer protection standards, and create mechanisms for accountability. In regulated financial systems, compliance with formal rules is expected to reduce uncertainty and protect consumers from unfair or harmful practices. However, governance scholarship has long emphasized that formal rules do not automatically produce legitimacy or public confidence. Rules must be translated into institutional conduct through governance practices that are transparent, accountable, ethical, fair, and responsive to public expectations. Regulation may provide the legal foundation for institutional operation, but governance determines how that foundation is experienced by the public in practice.

This distinction between regulation and governance is increasingly important in the era of digital finance. Digital financial services have transformed the way institutions interact with consumers by replacing many face-to-face transactions with platform-based, remote, automated, and data-driven processes. Digital finance can expand access, reduce transaction costs, increase service speed, and reach communities previously excluded from formal financial systems. At the same time, digitalization can intensify information asymmetry because consumers may not fully understand how digital pricing, digital contracts, automated assessment, personal data processing, or algorithmic decision-making operate. In digital financial environments, trust is no longer shaped only by institutional reputation or regulatory status, but also by whether consumers perceive digital services as understandable, secure, fair, accountable, and aligned with their interests.

The literature on digital finance shows that digital transformation generates both inclusion opportunities and governance risks. Studies on financial technology emphasize that digital financial innovation can improve efficiency, competition, and access to services, particularly in emerging markets and underserved communities (Gomber et al., 2017; Ozili, 2018; Thakor, 2020). However, the same literature also highlights risks related to data security, consumer protection, algorithmic opacity, and uneven digital literacy (Stewart & Jürjens, 2018; Shin, 2021; Jafri et al., 2023). These risks are not merely technical. They are governance problems because they concern how institutions disclose information, explain decisions, correct errors, handle complaints, protect vulnerable users, and ensure fairness in digital transactions. Therefore, digital transformation in finance requires more than technological modernization. It requires governance arrangements that can convert innovation into trustworthy institutional behavior.

Pawnshop institutions occupy a distinctive position within this broader transformation. Unlike commercial banks or large-scale investment institutions, pawnshop institutions typically provide short-term, collateral-based financing to consumers who may need immediate liquidity and who may not have easy access to conventional credit. Their services are often used by economically vulnerable groups, micro-entrepreneurs, informal workers, and households facing temporary financial pressure. Because pawnshop transactions are based on the valuation of pledged goods, contractual clarity, pricing transparency, and fairness in collateral treatment are central to consumer trust. The trust relationship in pawnshop services is therefore shaped not only by repayment terms but also by whether consumers believe that valuation, fees, rights, obligations, and redemption procedures are fair and understandable.

In Indonesia, pawnshop institutions operate within a regulated non-bank financial system. The Financial Services Authority has issued regulatory frameworks governing pawnshop business activities, institutional obligations, and consumer protection expectations (Otoritas Jasa Keuangan, 2016; Otoritas Jasa Keuangan, 2020). The broader authority of the Financial Services Authority is grounded in Law Number 21 of 2011 concerning the Financial Services Authority, which establishes the institutional mandate for regulating and supervising financial service sectors in Indonesia. These regulations provide formal legitimacy for pawnshop operations and help standardize institutional practices. Nevertheless, the existence of regulation alone does not guarantee that consumers will experience pawnshop services as trustworthy, especially when service delivery shifts into digital channels.

Digital pawnshop transformation introduces new governance challenges into an already trust-sensitive financial service. Digital contracts may be efficient, but they can also be difficult for consumers to interpret. Online collateral assessment may accelerate service delivery, but it can also raise questions about valuation transparency.

Trust theory provides an important foundation for understanding this issue. Institutional trust refers to the willingness of individuals to rely on institutions despite uncertainty and vulnerability. Mayer et al. (1995) explain trust through perceived ability, benevolence, and integrity, while Tyler (2006) emphasizes the importance of legitimacy and procedural fairness in authority-based relationships. In financial markets, Guiso et al. (2008) show that trust affects willingness to participate in financial systems, while van der Cruijsen et al. (2021) highlight that trust in financial institutions remains a central concern after periods of financial instability. These studies suggest that trust is not simply a psychological preference. It is an institutional outcome shaped by governance, fairness, communication, and perceived reliability.

Governance theory also clarifies why regulation needs institutional implementation. Regulatory governance is not limited to the existence of legal rules, but includes how those rules are interpreted, operationalized, monitored, and experienced. Levi-Faur (2005) argues that regulatory capitalism involves the diffusion of regulatory mechanisms across institutions, while Six (2013) emphasizes that trust in regulatory relations depends on the quality of interactions among regulators, regulated institutions, and stakeholders. Transparency research further shows that openness does not automatically produce trust unless information is meaningful, understandable, and contextually relevant (Licht, 2014; Licht et al., 2014; Grimmelikhuijsen et al., 2013). These insights are highly relevant for digital pawnshop services, where consumers need not only access to information but also information that can be understood and used in decision-making.

Existing studies on financial technology and digital finance provide useful insights into adoption, security, and consumer perception. Research has examined fintech adoption, mobile financial services, digital banking, financial inclusion, and the role of trust and perceived risk in technology use (Ouma et al., 2017; Ryu, 2018; Hu et al., 2019; Jünger & Mietzner, 2020; Jafri et al., 2023). Other studies address digital finance at a broader institutional level, including its implications for financial stability, competition, regulatory technology, decentralized finance, and artificial intelligence in financial inclusion (Anagnostopoulos, 2018; Arner et al., 2017; Boot et al., 2021; Kshetri, 2021; Zetzsche et al., 2020). However, much of this literature focuses on banking, payment platforms, fintech adoption, or digital financial inclusion in general. Less attention has been paid to pawnshop institutions as non-bank financial institutions undergoing digital transformation.

This gap is important because pawnshop institutions differ from many other financial service providers. Their trust relationship is directly connected to collateral valuation, redemption rights, cost disclosure, service accessibility, and the treatment of consumers who may have limited bargaining power. These issues show that digital pawnshop trust depends on governance quality rather than platform convenience alone.

The Indonesian context further strengthens the need for a governance-centered analysis. Indonesia has a formal regulatory framework for pawnshop institutions, but the transformation of pawnshop services into digital channels requires closer attention to how regulatory principles are implemented. Legal compliance may ensure that an institution operates within the formal financial system, but public trust depends on whether consumers perceive institutional behavior as transparent, accountable, fair, ethical, and understandable. This means that regulation and trust should not be treated as directly connected in a simple linear relationship. Instead, governance practices should be examined as mediating mechanisms that translate regulatory requirements into public-facing institutional conduct.

Despite the growing body of literature on governance, regulation, institutional trust, and digital finance, research on governance-mediated trust in digital pawnshop transformation remains limited. Existing discussions often examine regulation, operational efficiency, consumer protection, or technology adoption separately. Few studies systematically integrate these dimensions into a conceptual explanation of how governance practices connect regulation to public trust in pawnshop institutions. This fragmentation limits understanding of how trust is constructed and sustained in regulated non-bank financial institutions undergoing digital transformation. It also limits the ability of regulators and institutions to design governance mechanisms that address digital opacity, consumer vulnerability, and trust erosion.

This study is guided by the following research question: How do governance practices mediate the relationship between regulatory frameworks and public trust in digitally transforming pawnshop institutions? To answer this question, the study develops an integrative conceptual framework that links regulatory foundations, governance practices, and public trust outcomes. The framework positions transparency, accountability, ethical conduct, fairness, and communication clarity as governance mechanisms through which regulatory requirements are translated into institutional behavior that can be understood and trusted by the public.

The objective of this study is to analyze governance pathways through which regulation can be transformed into public trust in digital pawnshop services. Rather than treating regulation as a sufficient source of legitimacy, this article argues that governance practices determine whether legal legitimacy becomes trust-based institutional legitimacy. The article contributes to the literature in three ways. First, it integrates regulatory governance, institutional trust, and digital finance literature in the specific context of pawnshop institutions. Second, it develops a governance-mediated trust framework that explains the pathway from regulation to public trust. Third, it offers policy-relevant insights for regulators and pawnshop institutions in Indonesia by identifying governance dimensions that can strengthen transparency, accountability, fairness, ethical conduct, and communication clarity in digital service delivery.

This study therefore advances the argument that digital pawnshop transformation should not be understood only as technological modernization or regulatory compliance. It should be understood as a governance process in which institutional rules, digital systems, and consumer-facing practices must be aligned to build and sustain public trust. By focusing on the mediating role of governance practices, the article provides a conceptual basis for improving the legitimacy, accountability, and trustworthiness of pawnshop institutions in Indonesia's evolving digital financial landscape.

2. Methods

2.1 Research design and philosophical approach

This study adopts a qualitative conceptual and policy-oriented research design based on secondary legal, policy, and scholarly sources. This design is appropriate because the study aims to develop an integrative governance framework rather than to test statistical hypotheses or measure causal effects through primary empirical data. The central purpose of the method is to synthesize existing theoretical, regulatory, and policy materials in order to explain how governance practices mediate the relationship between regulation and public trust in digitally transforming pawnshop institutions. The study is therefore positioned as a framework-building inquiry that combines conceptual analysis, regulatory interpretation, and thematic synthesis.

Ontologically, governance, regulation, and institutional trust are treated as socially constructed and institutionally embedded phenomena. They are not approached as directly measurable variables in the same way as financial ratios or transaction volumes. Instead, they are understood as concepts that acquire meaning through institutional rules, public expectations, consumer perceptions, and organizational practices. Epistemologically, the study is grounded in an interpretive approach that seeks to understand how legitimacy and trust are produced through the interaction between formal regulation and practical governance arrangements. This orientation is consistent with the objective of examining governance-mediated trust formation in the context of digital pawnshop transformation.

2.2 Data sources and selection criteria

The study relies exclusively on secondary sources and does not involve surveys, interviews, experiments, field observation, or statistical analysis. The materials analyzed include peer-reviewed journal articles, academic books, international organization reports, and Indonesian legal and regulatory documents. Scholarly sources were used to construct the theoretical foundation of the study, particularly in relation to governance theory, regulatory governance, institutional trust, digital finance, financial technology adoption, consumer protection, transparency, and accountability. Policy and legal sources were used to contextualize the discussion within the Indonesian pawnshop regulatory environment, especially regulations issued by the Financial Services Authority and relevant national legislation.

The selection of sources followed purposive and thematic criteria. Sources were included when they addressed at least one of the following themes: governance theory, regulatory governance, trust in institutions, trust in financial institutions, public trust, digital finance, financial technology, consumer protection, information asymmetry, algorithmic transparency, non-bank financial institutions, pawnshop institutions, or Indonesian financial regulation. Sources were also included when they provided conceptual categories relevant to the construction of the governance-mediated trust framework, such as transparency, accountability, ethical conduct, fairness, communication clarity, legitimacy, and consumer vulnerability. Priority was given to peer-reviewed journal articles from reputable publishers, recent studies published within the last five to ten years, and seminal theoretical works that remain widely cited in governance and trust scholarship.

Sources were excluded when they were not directly related to financial governance, institutional trust, digital financial services, or regulatory analysis. Materials were also excluded when they focused only on technical financial performance without governance relevance, lacked identifiable authorship or institutional credibility, did not provide accessible bibliographic information, or did not contribute to the conceptual development of the study. Non-scholarly web materials were avoided unless they were official regulatory or institutional sources. This selection process was intended to ensure that the analysis remained focused on sources that were theoretically relevant, methodologically credible, and directly connected to the research question.

The final source corpus consisted of 38 core references, including 31 journal articles and 7 selected non-journal sources such as books, international organization reports, and Indonesian regulatory documents. Journal articles constituted the majority of the references in order to align with the journal requirement that most references should be primary scholarly sources. Seminal older works were retained only when they provided foundational concepts that remain relevant to the study, such as institutional trust, legitimacy, or regulatory governance. More recent studies on digital finance, financial technology, consumer trust, transparency, consumer protection, and algorithmic explainability were incorporated to strengthen the contemporary relevance of the analysis.

The data collection process was conducted through systematic document identification. Relevant sources were identified by searching for key terms and combinations of key terms related to the study, including regulatory governance, institutional trust, public trust, financial institutions, digital finance, financial technology, consumer protection, information asymmetry, algorithmic transparency, pawnshop institutions, non-bank financial institutions, and Indonesian financial regulation. The search was guided by the conceptual needs of the study rather than by bibliometric exhaustiveness. This approach was appropriate because the purpose of the study was not to quantify the literature but to develop an analytically coherent framework linking regulation, governance practices, and public trust.

2.3 Analytical procedure and methodological limitations

The analytical process consisted of five stages. The first stage was document identification, in which relevant scholarly, policy, and regulatory sources were selected according to the inclusion and exclusion criteria. The second stage was thematic coding. At this stage, recurring concepts were identified from the selected sources, including legal legitimacy, regulatory compliance, transparency, accountability, ethical conduct, fairness, communication clarity, digital risk, consumer vulnerability, information asymmetry, explainability, institutional legitimacy, and public trust. The third stage was thematic synthesis, in which these recurring concepts were grouped into broader analytical categories. For example, transparency, accountability, ethical conduct, fairness, and communication clarity were synthesized as core governance practices, while consumer confidence, reduced uncertainty, legitimacy, and willingness to engage with digital services were synthesized as public trust outcomes.

The fourth stage was conceptual mapping. This stage connected the synthesized themes into a governance-mediated trust framework. The mapping process treated regulation as the formal institutional foundation, governance practices as mediating mechanisms, and public trust as the expected legitimacy outcome. Through this process, the study developed a pathway model explaining how regulatory requirements can be translated into public-facing institutional behavior through governance implementation. The fifth stage was data display and interpretation. The results of the conceptual synthesis are presented through narrative analysis, tables, and figures. Tables are used to summarize governance dimensions, trust implications, and regulatory relevance, while figures are used to visualize the conceptual framework and governance pathway model.

Analytical adequacy was determined through conceptual saturation and internal coherence. Conceptual saturation was considered to have been reached when additional sources no longer produced substantially new governance or trust-related themes. Internal coherence was assessed by examining whether the selected sources collectively supported the three central elements of the framework: regulation as the formal legal foundation, governance practices as mediating mechanisms, and public trust as the expected institutional outcome. The adequacy of the analysis was also checked by ensuring that each governance dimension included in the framework had theoretical support, practical relevance, and a clear connection to digital pawnshop transformation.

The study has methodological limitations. Because it relies on secondary sources, it does not provide empirical testing of the proposed framework through consumer surveys, institutional case studies, interviews, or quantitative modeling. The findings should therefore be understood as conceptual and policy-oriented rather than statistically generalizable.

3. Results and Discussion

3.1 Regulation as the legal foundation of digital pawnshop governance

The analysis shows that regulation provides the formal legal foundation for pawnshop institutions by defining legal authority, permissible business activities, consumer protection obligations, institutional responsibilities, and supervisory mechanisms. In the Indonesian context, pawnshop institutions operate within the broader non-bank financial system under the regulatory authority of the Financial Services Authority. Law Number 21 of 2011 concerning the Financial Services Authority establishes the legal basis for financial services regulation and supervision, while specific regulations on pawnshop business activities provide the operational framework for pawnshop institutions (Otoritas Jasa Keuangan, 2016; Otoritas Jasa Keuangan, 2020; Undang-Undang Republik Indonesia Nomor 21 Tahun 2011). These legal instruments are important because they formally recognize pawnshop activities, define institutional boundaries, and provide a basis for consumer protection.

Regulation creates institutional legitimacy by signaling that pawnshop institutions operate under public oversight rather than informal or unregulated financial practices. This function is particularly important because pawnshop services are often used by consumers who need short-term liquidity and may have limited access to conventional banking services. In such contexts, regulation may reduce uncertainty by establishing formal standards related to business licensing, institutional reporting, collateral-based transactions, and consumer rights. From the perspective of regulatory governance, legal rules function as an institutional architecture that defines acceptable conduct and establishes the authority of regulators to monitor and correct institutional behavior (Levi-Faur, 2005; Six, 2013).

However, the findings also indicate that regulation alone is insufficient to generate public trust. Regulation defines what institutions are required to do, but governance determines how those requirements are implemented in everyday service delivery. This distinction is central to the argument of this study. Consumers do not usually evaluate regulatory compliance directly. They experience institutional governance through the clarity of information, the fairness of collateral valuation, the transparency of pricing, the responsiveness of complaint handling, and the ethical treatment they receive during service interactions. Therefore, while regulation establishes formal legitimacy, governance practices determine whether that legitimacy becomes meaningful and credible to the public.

Table 1. Regulatory context and governance implications for Indonesian pawnshop institutions

Regulation or policy source	Main regulatory focus	Relevance to pawnshop institutions	Governance implication
Law Number 21 of 2011 concerning the Financial Services Authority	Establishes the authority of the Financial Services Authority to regulate and supervise financial service sectors	Provides the legal basis for oversight of financial institutions, including non-bank financial institutions	Strengthens formal legitimacy and supervisory accountability
OJK Regulation Number 31/POJK.05/2016 concerning Pawnshop Business	Regulates pawnshop business activities, institutional obligations, and operational requirements	Defines the legal and operational framework for pawnshop institutions	Requires governance practices that translate regulatory obligations into fair and transparent services
OJK Regulation Number 12/POJK.05/2020	Regulates aspects of non-bank financial service governance and institutional obligations	Supports oversight of non-bank financial service institutions	Encourages accountability, compliance, and institutional responsibility
OECD corporate governance principles	Provides general principles of transparency, accountability, responsibility, and fairness	Offers governance principles relevant to financial institutions	Supports alignment between institutional governance and stakeholder trust
OECD trust and public policy framework	Explains how governance quality shapes public trust	Relevant for understanding trust as a policy and institutional outcome	Highlights the need for governance arrangements beyond formal legal compliance

Author's synthesis based on Otoritas Jasa Keuangan (2016, 2020), Undang-Undang Republik Indonesia Nomor 21 Tahun 2011, and OECD (2015, 2017, 2022).

This finding is consistent with institutional trust literature, which emphasizes that trust emerges under conditions of uncertainty and vulnerability. Mayer et al. (1995) identify ability, benevolence, and integrity as core dimensions of trustworthiness. In the context of pawnshop institutions, ability refers to the institution's competence in providing reliable and lawful services; benevolence refers to the perception that the institution does not exploit consumer vulnerability; and integrity refers to the perception that the institution follows fair and ethical principles. Regulation may support these dimensions, but it does not automatically guarantee that consumers will perceive the institution as trustworthy.

The digital transformation of pawnshop services makes this gap between legal compliance and public trust more visible. In traditional service settings, consumers may rely on face-to-face explanations, branch familiarity, and direct interaction with service officers. In digital service settings, many of these interpersonal trust cues are reduced. Consumers interact with digital contracts, platform interfaces, automated notifications, online valuation processes, and remote customer service channels. As a result, regulation must be translated into visible governance practices that consumers can understand. Without such translation, formal regulatory compliance may remain institutionally valid but socially invisible.

Digital finance literature also supports this conclusion. Digital financial innovation may improve efficiency, access, and service speed, but it can also create new risks related to information asymmetry, security, data use, and algorithmic opacity (Gomber et al., 2017; Ozili, 2018; Thakor, 2020). In the pawnshop context, these risks are not abstract. They may appear in how consumers understand digital fees, collateral valuation methods, contract terms, redemption deadlines, or dispute mechanisms. Thus, regulation must be supported by governance mechanisms that make digital service delivery transparent, accountable, fair, and understandable.

Table 1 shows that regulation provides the legal and institutional basis for pawnshop governance, but the governance implications extend beyond compliance. The legal framework creates the foundation for institutional operation, while governance principles determine how the institution communicates, explains, applies, and enforces those rules in practice. This supports the first analytical finding of the study: regulation is a necessary but insufficient condition for public trust in digital pawnshop transformation.

The central synthesis of this study is that governance practices mediate the relationship between regulation and public trust. This means that trust is not produced directly by the existence of regulation. Instead, trust emerges when regulatory requirements are translated into institutional behavior that consumers perceive as transparent, accountable, ethical, fair, and understandable. In this framework, governance practices function as the operational bridge between formal regulation and public perception.

This finding is consistent with trust theory and governance scholarship. Trust is shaped not only by formal authority but also by perceived institutional reliability, integrity, competence, and fairness (Mayer et al., 1995; Tyler, 2006; Cruijsen et al., 2021). In financial services, consumers often lack the technical capacity to assess whether institutions fully comply with regulatory rules. They instead rely on signals that are more directly observable, including information clarity, service consistency, complaint responsiveness, and perceived fairness. This is especially relevant in pawnshop institutions because consumers may be in financially vulnerable situations and may need rapid access to liquidity.

The first governance dimension is transparency. Transparency refers to the availability, clarity, and usability of information. In digital pawnshop services, transparency includes clear disclosure of fees, valuation methods, repayment obligations, redemption rules, risks, penalties, and complaint procedures. Transparency is not simply the act of providing information. Prior research shows that openness generates legitimacy only when information is understandable and contextually meaningful (Licht, 2014; Licht et al., 2014; Grimmelikhuijsen et al., 2013). Therefore, digital pawnshop institutions should not assume that long digital contracts or complex disclosure statements automatically produce transparency. Information must be presented in a way that consumers can understand before making financial decisions.

The second dimension is accountability. Accountability refers to the ability of institutions to explain decisions, accept responsibility, correct errors, and respond to complaints. In digital pawnshop transformation, accountability becomes important because many decisions may be mediated by digital systems. Consumers may need to know why a collateral item receives a particular valuation, why certain fees apply, why a transaction is rejected, or how to contest a decision. Without clear accountability mechanisms, digital services may appear efficient from the institutional perspective but opaque from the consumer perspective. Accountability therefore supports trust by reducing the perception that institutional decisions are arbitrary or impossible to challenge.

The third dimension is ethical conduct. Pawnshop institutions frequently serve consumers who may face urgent financial pressure. This creates an ethical responsibility to prevent exploitative practices, unclear pricing, manipulative communication, or unfair treatment. Ethical conduct includes responsible service design, proportional fees, respect for consumer vulnerability, protection of personal data, and avoidance of practices that take advantage of limited financial literacy. Ethical conduct is especially relevant in digital service environments because digital interfaces can influence consumer choices through design, default options, and automated messaging. A governance approach to digital pawnshop transformation must therefore include ethical safeguards, not only technical compliance.

The fourth dimension is fairness. Fairness refers to the perception that institutional procedures and outcomes are balanced, consistent, and justifiable. In pawnshop services, fairness is closely related to collateral valuation, pricing, contract terms, redemption procedures, and dispute resolution. A consumer may accept a lower valuation or a specific fee if the reasoning is clearly explained and the procedure appears consistent. Conversely, trust may decline when consumers perceive valuation or pricing as arbitrary, hidden, or biased. Procedural fairness is important because it shapes legitimacy even when outcomes are not fully favorable to consumers (Tyler, 2006).

The fifth dimension is communication clarity. Communication clarity refers to the ability of institutions to explain information in accessible, timely, and consumer-oriented language. In digital pawnshop services, communication clarity includes plain-language contracts, clear notifications, accessible customer support, understandable digital interfaces, and clear explanation of rights and obligations. Communication clarity is different from transparency. Transparency concerns the availability of information, while communication clarity concerns whether the information is understandable and usable. Both are necessary for trust formation.

Table 2 shows that governance practices operate as mediating mechanisms because they convert abstract regulatory obligations into concrete consumer experiences. Regulation may require institutions to protect consumers, but transparency explains what consumers need to know. Regulation may require accountability, but complaint handling and decision review make accountability visible. Regulation may define institutional responsibilities, but ethical conduct and fairness determine whether consumers perceive those responsibilities as sincere and credible. In this sense, governance practices are the practical pathways through which public trust is built.

Digital transformation creates new opportunities for pawnshop institutions, but it also generates new trust risks. Digital platforms can increase accessibility by allowing consumers to initiate transactions remotely, monitor service status, receive digital notifications, and access information more quickly. For consumers who face mobility constraints, time limitations, or limited access to physical branches, digital services may improve convenience and inclusion. This is consistent with broader digital finance literature showing that digital financial services can support financial inclusion and reduce transaction costs (Ouma et al., 2017; Ozili, 2018; Suri & Jack, 2016).

However, digital transformation can also increase information asymmetry. In conventional pawnshop transactions, consumers may ask officers directly about valuation, fees, contract terms, or redemption procedures. In digital services, consumers may receive information through screens, forms, automated messages, or standardized digital contracts. If these digital interfaces are not designed with clarity and fairness, consumers may accept terms without fully understanding them. Digitalization can therefore produce a paradox: it may expand access while reducing interpretive support.

This problem is especially important in collateral-based financing. In a pawnshop transaction, the value assigned to collateral is central to the consumer's decision. If collateral valuation is conducted or communicated through digital systems, consumers may not understand how the value is determined. Even when valuation follows internal rules, the absence of explanation can create suspicion. Trust may decline when consumers perceive that valuation is hidden, inconsistent, or difficult to challenge. Therefore, digital pawnshop governance must include explainable valuation procedures and accessible dispute mechanisms.

Table 2. Governance dimensions and trust implications in digital pawnshop transformation

Governance dimension	Operational meaning	Trust implication	Example in digital pawnshop services	Supporting sources
Transparency	Clear disclosure of costs, risks, valuation methods, rights, and obligations	Reduces uncertainty and improves perceived openness	Displaying fees, redemption deadlines, and collateral valuation basis before contract approval	de Fine Licht (2014); Grimmelikhuijsen et al. (2013); OECD (2015)
Accountability	Ability to explain, review, and correct institutional decisions	Strengthens perception of institutional responsibility	Providing complaint channels, decision explanations, and review mechanisms for valuation disputes	Six (2013); OECD (2017); Tyler (2006)
Ethical conduct	Responsible treatment of consumers and avoidance of exploitative practices	Reduces perceived vulnerability and moral risk	Ensuring fair communication with consumers under financial pressure	Bachmann et al. (2015); Mayer et al. (1995)
Fairness	Consistent and balanced procedures in pricing, valuation, and dispute resolution	Enhances legitimacy and consumer confidence	Applying consistent collateral valuation rules and fair redemption procedures	Tyler (2006); Carlin & Gervais (2009)
Communication clarity	Plain and understandable explanation of service terms and decisions	Improves consumer understanding and willingness to engage	Using simple digital contracts, clear notifications, and accessible help features	Jafri et al. (2023); Stewart & Jürjens (2018)

Digital contracts create similar issues. A digital contract may be efficient and legally valid, but it may not be meaningful to consumers if the language is technical, the layout is difficult to read, or the key risks are not highlighted. The governance problem is not only whether the contract exists, but whether the consumer can understand the contract before agreeing to it. This aligns with transparency literature, which emphasizes that information disclosure must be usable and understandable to generate legitimacy (Licht et al., 2014; Grimmelikhuijsen & Knies, 2017).

Algorithmic or automated processes also raise questions of explainability and accountability. Studies on digital systems and artificial intelligence show that explainability influences user trust and acceptance because users are more likely to trust systems when they understand how decisions are produced (Felzmann et al., 2020; Shin, 2021). In financial services, automated decision-making can create efficiency, but it may also generate opacity if consumers cannot identify the basis of institutional decisions. If digital pawnshop institutions use automated pricing, digital risk assessment, or algorithm-assisted valuation, governance mechanisms are needed to explain decisions and provide channels for correction.

Security and data protection are also central to digital trust. Fintech adoption literature shows that trust and perceived security significantly influence whether consumers are willing to use digital financial services (Stewart & Jürjens, 2018; Jafri et al., 2023). Digital pawnshop services may involve personal identification, asset information, transaction history, contact details, and potentially sensitive financial data. If consumers doubt that their data are protected, trust in digital services may decline even when the institution is legally regulated. Digital governance must therefore include data protection, cybersecurity communication, and responsible data use.

Consumer vulnerability intensifies these risks. Pawnshop users may include consumers who require urgent cash, have limited bargaining power, or possess limited legal and financial literacy. Such consumers may be more likely to accept unclear terms because they need immediate liquidity. Consumer protection and financial literacy literature similarly emphasizes that financial inclusion must be accompanied by safeguards that help consumers understand risks and exercise rights (Morgan et al., 2021). This creates a governance obligation to ensure that digital platforms do not rely on consumer urgency or limited understanding. Ethical design, plain-language disclosure, cooling-off information, clear reminders, and accessible assistance can reduce the risk of exploitation.

The digital transformation of pawnshop institutions therefore requires a shift from compliance-centered thinking to trust-centered governance. Compliance-centered thinking asks whether the institution satisfies formal requirements. Trust-centered governance asks whether consumers can understand, evaluate, question, and rely on institutional conduct. This shift does not replace regulation. It strengthens regulation by ensuring that regulatory objectives are realized in consumer-facing practice.

The synthesis presented in this review further indicates that existing studies predominantly examine regulatory compliance, digital innovation, consumer protection, or sharia governance as separate domains. While these studies provide valuable insights into specific aspects of pawnshop governance, they offer only limited explanation of how these dimensions interact to influence public trust in digital financial services. Consequently, there remains a need for a more integrated conceptual perspective that explains the mechanisms through which regulatory arrangements are translated into trustworthy institutional practices, particularly within Indonesia's rapidly evolving digital pawnshop ecosystem.

From an institutional governance perspective, trust is not generated solely by the existence of regulations but by the quality of governance through which those regulations are implemented. Regulatory frameworks establish institutional legitimacy, yet consumers ultimately evaluate financial institutions based on their actual experiences, including the transparency of information, fairness of procedures, protection of personal data, accountability in dispute resolution, and consistency between institutional behavior and ethical principles. This observation suggests that governance functions as the critical link connecting formal regulation with consumer trust.

Building upon these findings, this study proposes an integrative governance-mediated trust framework that synthesizes the principal themes emerging from the reviewed literature. Rather than conceptualizing regulation as a direct determinant of trust, the framework positions governance practices as the mediating mechanism through which legal obligations are translated into institutional conduct that consumers can observe and evaluate. The proposed framework therefore consists of three interconnected elements:

regulatory foundations, governance practices, and public trust outcomes. Regulatory foundations provide the formal legal basis for pawnshop institutions. Governance practices translate legal requirements into institutional conduct. Public trust emerges when consumers perceive that conduct as legitimate, reliable, fair, accountable, ethical, and understandable.

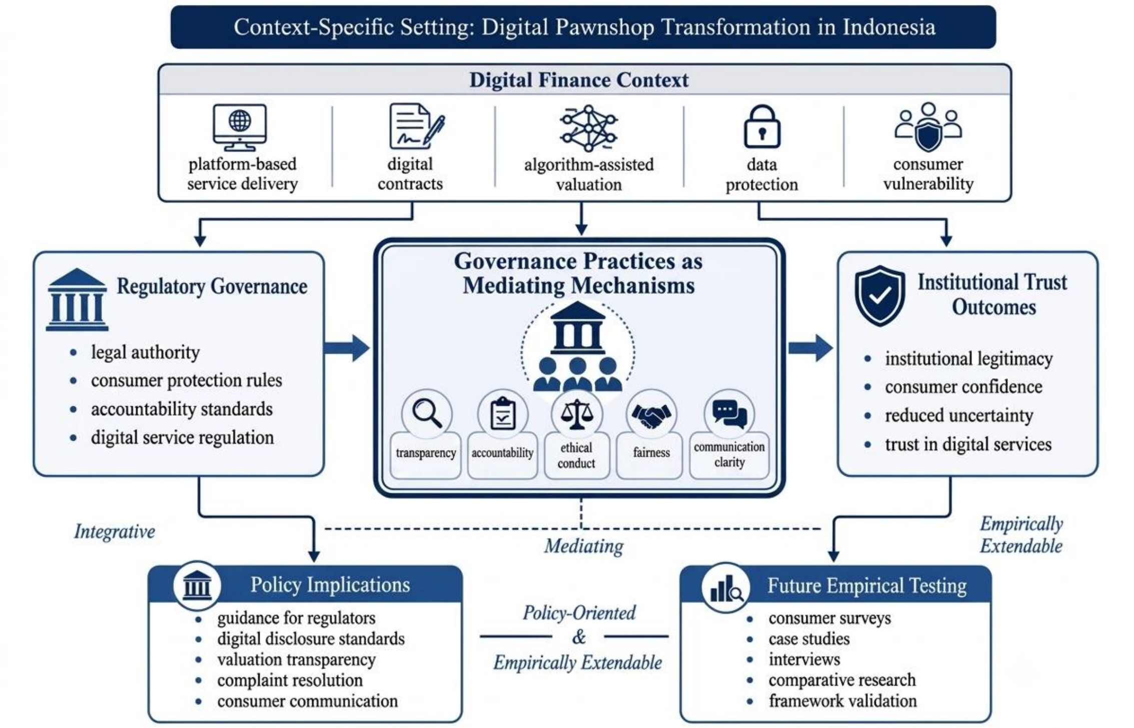

Fig. 1. Integrative governance-mediated trust conceptual framework for digital pawnshop transformation in Indonesia

Figure 1 illustrates that the relationship between regulation and trust is not direct but is mediated through governance practices implemented by financial institutions. Regulation is positioned as the foundational layer because it establishes legal legitimacy, defines institutional obligations, and provides the normative framework within which pawnshop services operate. Governance practices occupy the intermediary position because they determine how these legal requirements are translated into day-to-day institutional behavior through transparency, accountability, ethical conduct, consumer protection, risk management, and effective communication. Public trust constitutes the ultimate outcome, reflecting consumers' perceptions of institutional legitimacy, reliability, fairness, and integrity.

The framework also demonstrates that digital transformation does not alter the fundamental objectives of regulation but changes the mechanisms through which consumers experience governance. As pawnshop services increasingly migrate to digital platforms, governance becomes embedded in digital interfaces, automated decision-making, online disclosures, and technology-enabled customer interactions. Consequently, governance quality increasingly depends on whether digital systems can operationalize regulatory requirements while maintaining transparency, accountability, and sharia compliance. The proposed framework therefore provides a conceptual explanation of how regulation, governance, and digitalization interact to shape institutional trust, offering a foundation for future empirical studies and policy development in Indonesia's evolving digital pawnshop ecosystem.

While the governance-mediated trust framework presented in Figure 1 explains the structural relationship between regulation, governance, and public trust, it remains primarily conceptual. To better illustrate the dynamic process through which trust is developed in practice, it is necessary to translate this structural framework into an operational governance pathway. Such a pathway demonstrates how legal requirements are progressively transformed into institutional actions that ultimately shape consumer perceptions in digital pawnshop services.

The framework also demonstrates that digital transformation does not alter the fundamental objectives of regulation but changes the mechanisms through which consumers experience governance. As pawnshop services increasingly migrate to digital platforms, governance becomes embedded in digital interfaces, automated decision-making, online disclosures, and technology-enabled customer interactions. Consequently, governance quality increasingly depends on whether digital systems can operationalize regulatory requirements while maintaining transparency, accountability, and sharia compliance.

Building upon the governance-mediated trust framework, this study therefore proposes a governance pathway model that illustrates the sequential process through which regulatory requirements influence governance design, governance design shapes digital service delivery, and service delivery ultimately affects consumer perceptions and public trust. Unlike Figure 1, which emphasizes the conceptual relationships among institutional components, this pathway model highlights the operational flow through which governance is translated into consumer experience within digital pawnshop ecosystems.

Fig. 2. Governance pathway model for digital pawnshop services

Figure 2 operationalizes the conceptual framework presented in Figure 1 by depicting trust formation as a sequential governance process rather than a single institutional outcome. The pathway model demonstrates that regulatory requirements shape governance design; governance design shapes digital service delivery; digital service delivery shapes consumer perception; and consumer perception ultimately shapes public trust. Accordingly, trust is understood as the cumulative result of interactions across multiple governance stages rather than as a direct consequence of regulation alone.

The pathway model in Fig. 2 can be expressed as follows: regulatory requirements shape governance design; governance design shapes digital service delivery; digital service delivery shapes consumer perception; and consumer perception shapes public trust. This model is useful because it identifies where trust can be strengthened or weakened. If regulation is clear but governance design is weak, trust may not form. If governance design is strong but digital service delivery is confusing, trust may still decline. If digital service delivery is technically efficient but consumers perceive it as unfair or opaque, trust may erode. Therefore, trust formation depends on the entire governance pathway, not only on the existence of regulation.

This pathway model also helps distinguish the article's contribution from prior literature. Fintech adoption studies often focus on user acceptance, perceived usefulness, perceived ease of use, security, and trust (Hu et al., 2019; Jünger & Mietzner, 2020; Ryu, 2018; Jafri et al., 2023). Regulatory governance studies often focus on the role of rules, oversight, and institutional compliance (Anagnostopoulos, 2018; Arner et al., 2017; Levi-Faur, 2005; Six, 2013). Trust studies often focus on legitimacy, reliability, integrity, and procedural fairness (Mayer et al., 1995; Tyler, 2006; Bachmann et al., 2015). This study integrates these streams by applying them to digital pawnshop institutions and by explaining how governance practices mediate the movement from regulation to public trust.

The framework also has practical value. It allows regulators and institutions to identify governance indicators that can be monitored. For example, transparency can be assessed through the clarity of fee disclosure and contract presentation. Accountability can be assessed through complaint resolution procedures and response times. Fairness can be assessed through consistency in collateral valuation and dispute outcomes. Communication clarity can be assessed through consumer understanding of digital terms and conditions. Ethical conduct can be assessed through safeguards for vulnerable consumers and responsible use of consumer data. These indicators can support future empirical research and regulatory evaluation.

The findings have several policy implications for Indonesian pawnshop institutions and regulators. First, regulators should complement formal regulation with governance-oriented implementation guidance. Existing regulations establish important legal foundations, but digital transformation requires more specific guidance on how institutions should communicate, disclose, explain, and review digital service decisions. Governance-oriented guidance could address digital disclosure standards, plain-language contract requirements, collateral valuation transparency, complaint handling procedures, digital record accessibility, and responsible data use.

Second, pawnshop institutions should treat digital transformation as a governance project rather than only a technological upgrade. Digital platforms should not merely reproduce existing services in electronic form. They should be designed to strengthen consumer understanding, procedural fairness, and institutional accountability.

Third, collateral valuation should become a central area of digital governance. Because collateral valuation directly affects the amount of financing available to consumers, institutions should provide clear explanations of valuation criteria and review options. If valuation uses digital tools or standardized internal procedures, consumers should receive accessible information about how the valuation was produced. This does not require disclosure of all proprietary methods, but it does require sufficient explanation to reduce perceptions of arbitrariness.

Fourth, consumer communication should be strengthened. Digital services often rely on standardized notifications, automated messages, and digital forms. These communication tools should be tested for clarity, especially for consumers with different levels of financial and digital literacy. Institutions should avoid overly technical language and should highlight key obligations, risks, fees, and deadlines. Communication should not only protect the institution legally, but should also enable consumers to make informed decisions.

Fifth, complaint handling should be treated as a trust-building mechanism. In many institutions, complaints are seen as administrative burdens. From a governance perspective, complaints are signals of where institutional processes fail to meet consumer expectations. A transparent and responsive complaint system can strengthen trust because it shows that institutional decisions can be reviewed and corrected. Digital pawnshop platforms should therefore provide visible complaint channels, tracking numbers, response timelines, and escalation procedures.

Sixth, ethical safeguards should be built into digital service design. Pawnshop consumers may be financially vulnerable, and digital interfaces should not exploit urgency or low literacy. Ethical safeguards may include clear warnings about redemption deadlines, transparent fee accumulation, accessible support before contract approval, and non-coercive communication. Institutions should also ensure that consumer data are used responsibly and protected from misuse. These safeguards are consistent with broader concerns in digital finance regarding trust, security, and consumer protection (Stewart & Jürjens, 2018; Jafri et al., 2023).

Seventh, regulators may develop governance indicators for digital pawnshop supervision. Such indicators could include the clarity of digital disclosure, accessibility of complaint mechanisms, consistency of collateral valuation, data protection standards, consumer understanding, and dispute resolution performance. These indicators would help shift supervision from formal compliance toward governance quality. This does not mean that compliance becomes less important. Rather, compliance is strengthened when it is connected to practical governance outcomes.

Finally, the proposed framework can support future empirical assessment. Researchers can operationalize the five governance dimensions into survey indicators, interview protocols, case study variables, or institutional audit tools.

Overall, the results show that public trust in digital pawnshop transformation depends on the quality of governance implementation. Regulation provides the formal foundation, but governance practices determine whether consumers experience the institution as trustworthy. In this way, governance becomes the pathway through which legal legitimacy is transformed into public trust. For Indonesian pawnshop institutions, the challenge is not only to comply with regulation or adopt digital technology, but to design digital services that are transparent, accountable, ethical, fair, and understandable to the public.

4. Conclusions

This study concludes that governance practices constitute the critical pathway through which regulation can be transformed into public trust in digital pawnshop transformation. Regulation provides the formal legal foundation for pawnshop institutions by defining institutional authority, permissible activities, consumer protection obligations, and accountability standards. However, regulation alone does not automatically generate trust. Public trust emerges when legal requirements are implemented through governance practices that consumers can observe, understand, and evaluate. In this sense, the legitimacy of digital pawnshop institutions depends not only on regulatory compliance but also on institutional conduct that is transparent, accountable, ethical, fair, and clearly communicated.

The main conceptual finding of this study is that governance practices mediate the relationship between regulatory frameworks and public trust. The proposed framework positions regulatory foundations as the starting point of institutional legitimacy, governance practices as the mediating mechanisms of implementation, and public trust as the outcome of consumer-facing institutional behavior. Transparency enables consumers to understand costs, risks, valuation procedures, contract terms, and redemption obligations. Accountability ensures that institutional decisions can be explained, reviewed, and corrected. Ethical conduct reduces the risk of exploiting consumer vulnerability. Fairness strengthens confidence in pricing, collateral valuation, and dispute resolution. Communication clarity reduces information asymmetry and supports informed consumer decision-making in digital service environments.

The study contributes to the literature by integrating regulatory governance, institutional trust, and digital finance perspectives within the specific context of pawnshop institutions. Previous studies have examined financial technology adoption, trust in financial institutions, regulatory governance, and digital financial inclusion, but these discussions are often fragmented and rarely applied to digital pawnshop transformation. By developing a governance-mediated trust framework, this article offers a conceptual explanation of how legal legitimacy can become trust-based institutional legitimacy. This contribution is particularly relevant for non-bank financial institutions in emerging markets, where consumers may face limited financial literacy, unequal bargaining power, and heightened vulnerability in collateral-based transactions.

From a policy perspective, the findings suggest that regulators and pawnshop institutions should treat digital transformation as a governance agenda rather than a purely technological modernization process. For Indonesian pawnshop institutions, digital services should be designed to strengthen consumer understanding, valuation transparency, fee disclosure, complaint handling, data protection, and ethical treatment of vulnerable consumers. Regulators may strengthen trust-oriented governance by developing more specific guidance on digital disclosure, explainable collateral valuation, plain-language contracts, complaint resolution standards, responsible data use, and consumer communication. Such measures would help ensure that regulatory objectives are not only formally fulfilled but also experienced by consumers as fair, understandable, and trustworthy.

This study has several limitations. It relies on secondary legal, policy, and scholarly sources and does not include primary empirical data from consumers, regulators, or pawnshop institutions. Therefore, the proposed framework should be understood as conceptual and policy-oriented rather than statistically generalizable. The study also focuses primarily on the Indonesian regulatory context, which may limit direct transferability to other jurisdictions with different pawnshop systems, consumer protection regimes, or digital financial infrastructures. Nevertheless, the framework provides an analytical foundation that can be tested, refined, and adapted in future research.

Future studies should empirically examine the governance-mediated trust framework through consumer surveys, institutional case studies, interviews with regulators and practitioners, or comparative research across non-bank financial institutions. Quantitative studies may operationalize the five governance dimensions into measurable indicators and examine their effects on consumer trust, perceived fairness, and willingness to use digital pawnshop services. Qualitative studies may explore how consumers interpret digital contracts, valuation explanations, complaint mechanisms, and platform-based communication. Comparative studies may also assess whether similar governance pathways operate in microfinance institutions, fintech lending platforms, cooperative financial services, or other digital non-bank financial institutions. Such research would strengthen understanding of how regulation, governance, and trust interact in the evolving digital financial landscape.

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Author Contribution

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Not available. This study is a conceptual and policy-oriented analysis based on secondary legal, policy, and scholarly sources and does not involve human participants, animals, or sensitive personal data.

Informed Consent Statement

Not available.

Data Availability Statement

Data sharing is not applicable to this article as no new data were created or analyzed in this study.

Conflicts of Interest

The author declares no conflict of interest.

Declaration of Generative AI Use

During the preparation of this work, the author used ChatGPT to assist in language refinement and structural editing. After using this tool, the author reviewed and edited the content as needed and took full responsibility for the content of the publication.

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