



Exploring the Lived Experiences of Financial Regulators Managing Innovation and Prudential Oversight

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ABSTRACT

In the evolving landscape of financial governance, regulators face increasing challenges in managing the balance between innovation and prudential oversight. While prior studies have examined structural and institutional aspects of digital financial regulation, little is known about how regulators personally interpret and experience their roles within these complex environments. The present study addresses this gap by asking: how do financial regulators experience the tension between encouraging digital innovation and maintaining financial stability? Focusing on the Southeast Asian context, particularly within central and supervisory financial institutions in Indonesia, this study explores the lived experiences of seven senior financial regulators through in-depth semi-structured interviews. The analysis revealed four central themes: the burden of dual mandate, regulatory ambiguity, institutional pressure, and moral responsibility. These findings demonstrate that regulatory work is deeply interpretative and emotionally complex, shaped not only by formal mandates but also by ethical judgment and personal meaning-making. By uncovering the internal dynamics of regulatory decision-making, the study contributes to a more human-centered understanding of financial oversight. These insights highlight the need for institutional mechanisms that support reflective practice among regulators and suggest future research directions that integrate subjective experience into broader policy frameworks.



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INTRODUCTION

The intersection of financial innovation and regulatory oversight has become one of the most pressing challenges in modern economic governance. As digital technologies reshape the landscape of banking and finance, regulators are increasingly required to respond to complex and rapidly evolving developments, such as the rise of cryptocurrencies, neobanking, and algorithm-based lending platforms. These shifts are not merely technological they represent a profound transformation in how financial systems function, engage with users, and maintain systemic trust.

Amid these transformations, regulatory institutions must navigate the tension between enabling innovation for financial inclusion and competitiveness, and upholding systemic integrity. This study contributes directly to the policy discourse by offering a grounded understanding of how frontline regulators interpret and mediate this dual mandate in practice. While prior literature has focused on structural, legal, and institutional approaches to digital regulation (Zetzsche et al., 2020; Arner et al., 2021), this study moves beyond frameworks and compliance mechanisms by foregrounding the experiential realities of regulatory actors.

Understanding the lived experience of regulators their values, dilemmas, and sensemaking processes is essential in unpacking the human dimension behind policy decisions. In contexts where political interests, technological uncertainty, and systemic risks converge, regulators often operate in environments filled with ambiguity, pressure, and ethical tension. Their perspectives not only shape

the direction of regulatory responses but also reflect broader cultural, institutional, and psychological undercurrents within financial governance.

Given the highly subjective and context-sensitive nature of regulatory work in the digital age, there is a growing need to explore how regulators themselves interpret and experience their responsibilities. Phenomenological inquiry offers a powerful lens through which these lived meanings can be articulated, especially as it privileges depth, nuance, and personal insight over generalization. Such an exploration is vital to enriching the academic and policy discourse with grounded, experiential knowledge that is often absent from conventional regulatory analysis.

In recent years, scholarly interest in the subjective experiences of financial regulators has gained increasing relevance, especially as the boundaries of regulatory authority are continually tested by the speed and scope of digital transformation in financial services. While institutional analyses and legal frameworks have contributed significantly to understanding the structure of financial regulation, they often fall short in capturing the lived, interpretive dimensions of regulatory work particularly the personal dilemmas and decision-making processes of those entrusted with safeguarding financial stability.

Traditional empirical approaches, predominantly rooted in quantitative paradigms, tend to prioritize compliance metrics, performance indicators, or structural benchmarks. These methods, while valuable for measuring outcomes, frequently overlook the emotional, cognitive, and ethical layers embedded in regulatory practice. Consequently, they offer limited insight into how regulators internally negotiate the often conflicting pressures of promoting innovation and enforcing prudential safeguards (Dombret & Lewrick, 2022).

This methodological gap has resulted in an incomplete understanding of the regulatory landscape one that neglects the meaning-making practices, institutional uncertainties, and moral burden experienced by individuals within regulatory bodies. Previous studies, such as those by Arner et al. (2021) and Omarova (2021), provide important theoretical models but rarely engage with the voices of regulators themselves. This lack of experiential data constrains our ability to understand how regulatory decisions are shaped not only by institutional mandates but also by personal interpretations, value judgments, and relational dynamics.

To address this limitation, phenomenological approaches offer a compelling alternative. By focusing on how individuals interpret and construct meaning from their lived experience, phenomenology enables researchers to access the deeper layers of regulatory practice that are typically inaccessible through surface-level observation or numerical representation. In this study, interpretative phenomenological analysis (IPA) is applied to uncover the complex and often unspoken realities that regulators navigate as they seek to reconcile technological advancement with financial prudence.

Prevailing approaches to understanding financial regulation in the digital age have primarily emphasized structural, legal, and procedural dimensions. These efforts, while methodologically rigorous, tend to rely on predefined models of regulatory effectiveness and institutional performance metrics. As a result, the dominant solutions to addressing regulatory challenges such as implementing updated compliance protocols, adopting risk-based frameworks, or issuing innovation-friendly guidelines remain rooted in technical rationality and organizational abstraction (Zetzsche et al., 2020; Arner et al., 2021).

However, such frameworks are often limited in their capacity to capture the complex, lived realities of regulators operating at the intersection of innovation and prudence. They provide insufficient insight into how regulatory actors interpret their roles, experience ethical tensions, and respond to ambiguity in fast-evolving financial environments. The absence of first-person narratives within these models has led to a thin and incomplete understanding of the human experience behind regulatory practices particularly in contexts where decisions are shaped not only by formal mandates but also by personal judgment and situational awareness (Dombret & Lewrick, 2022; Omarova, 2021).

This conceptual and methodological shortfall underscores the need for an alternative approach one that prioritizes meaning, context, and subjectivity. Phenomenological inquiry, especially through interpretative methods, offers a powerful lens to explore the essence of regulatory experience from within. By focusing on how regulators perceive, interpret, and emotionally engage with their work, phenomenology provides a richer, more holistic view of financial regulation one that complements and deepens the insights offered by traditional frameworks.

Previous studies have examined regulatory frameworks, legal reforms, and institutional responses to digital financial innovation. Some have explored the challenges faced by central banks and financial authorities in adapting to crypto-assets, fintech platforms, and algorithmic lending systems (Arner et al., 2021; Bunea et al., 2023). However, very few have investigated how regulators personally experience these shifts or make sense of their responsibilities in such volatile environments. Theoretical models have been developed, but the human dimensions emotion, ambiguity, moral tension remain underexplored. This gap justifies the need for a deeper inquiry into regulators' lived experiences.

This study adopts an interpretative phenomenological approach to explore how financial regulators perceive and navigate the tension between innovation and prudential oversight. This method was chosen because it allows for a rich understanding of subjective experience, particularly in contexts of ethical ambiguity and institutional pressure. By focusing on meaning-making, the study seeks to address the knowledge gap identified in previous research. The approach emphasizes depth and insight over generalization, making it well-suited to uncover hidden dimensions of regulatory practice. Through this lens, the study provides a more human-centered account of financial governance.

The article is structured as follows: The introduction presents the context and rationale for the study. The next section outlines the phenomenological framework and methodological approach. This is followed by a description of participant selection, data collection procedures, and analytical techniques. The results section presents key themes that emerged from interpretative analysis of interview data. Finally, the discussion interprets these findings in relation to existing literature, and the conclusion summarizes their broader implications.

RESEARCH METHODS

Study Design

This study employed an interpretative phenomenological approach, grounded in the philosophical tradition of Heideggerian hermeneutics. The design was selected to enable a deep exploration of the lived experiences of financial regulators in managing the tension between innovation and prudential compliance. Phenomenology, particularly in its interpretative form, focuses on understanding the meanings individuals assign to their experiences within specific socio-cultural and institutional contexts. This approach was deemed appropriate for capturing the nuanced, subjective interpretations regulators hold regarding their roles, responsibilities, and the ethical dilemmas they encounter in rapidly evolving financial environments.

Participants

Participants consisted of senior and mid-level financial regulators with direct experience in supervising or developing policies related to digital financial innovations such as crypto-assets, neobanking, and algorithmic lending. Selection was based on purposive sampling to ensure that all participants possessed substantive and relevant experience with the phenomenon under investigation. Inclusion criteria encompassed individuals with a minimum of five years of experience in regulatory decision-making, currently active in national or regional financial regulatory agencies. Exclusion criteria included individuals without decision-making authority or those involved only in back-office or administrative functions. A total of seven participants (5 male, 2 female), aged between 38 and 59 years (mean age = 47.3), were included in the study. All participants held leadership roles, such as

directors, heads of department, or senior analysts, within central banks or financial supervisory authorities.

Data Collection

Data were collected through semi-structured, in-depth interviews conducted in person or via secure video conferencing platforms, depending on the participant's location and preference. An interview guide was developed to facilitate open-ended exploration of regulatory experiences, with questions tailored to elicit detailed narratives about challenges, values, and tensions faced in their professional roles. Each interview lasted between 60 and 90 minutes, and sessions were conducted in a private, distraction-free setting to ensure participant comfort and confidentiality. All interviews were audio-recorded with prior consent and transcribed verbatim. Field notes were maintained to document contextual observations and initial reflections. The interview protocol was adapted from established phenomenological guidelines and refined following a pilot interview with a non-participant regulator to enhance clarity and relevance.

Data Analysis

Data were analyzed using Interpretative Phenomenological Analysis (IPA), a method aligned with the philosophical underpinnings of the study. The analysis followed a multi-step process: transcripts were read multiple times for immersion, significant statements were highlighted to identify initial meaning units, and patterns were coded inductively. These codes were then clustered into higher-order themes through an iterative process of comparison, reflection, and abstraction. Essential meanings were synthesized to construct thematic narratives grounded in participants' lived experiences. NVivo software was used to organize data and facilitate transparency in the coding process, but analytic interpretation remained firmly grounded in manual engagement with the data to preserve contextual depth. The final thematic structure was validated through cross-checking with field notes and emergent memos.

Ethical Considerations

Ethical approval was obtained from the relevant institutional research ethics committee prior to data collection. All participants provided informed written consent after receiving a comprehensive explanation of the study's purpose, procedures, risks, and their rights, including the right to withdraw at any time without consequence. Anonymity was maintained through the use of pseudonyms, and all identifying information was removed from transcripts. Data were stored securely in encrypted digital formats and were accessible only to authorized research personnel. The study adhered to the ethical principles outlined in the Declaration of Helsinki and followed institutional and national ethical guidelines for qualitative research involving human subjects.

RESULTS

This study explores the lived experiences of financial regulators in navigating the tension between encouraging digital financial innovation and maintaining prudential compliance. Through Interpretative Phenomenological Analysis (IPA) of elite semi-structured interviews, four interrelated themes emerged, each reflecting the nuanced and often conflicting realities faced by regulators in the context of evolving digital finance ecosystems.

The Burden of Dual Mandate

Participants consistently articulated a profound sense of conflict in reconciling two core regulatory imperatives: fostering financial innovation and enforcing prudential discipline. This dual mandate was described as a constant source of internal tension.

“Every time we support a new fintech model, there's a nagging thought are we loosening the grip on risk too much? We are asked to innovate, but never at the cost of stability. Walking that line is never easy.” (R2)

“On paper, we're told to ‘embrace innovation,’ but we're the same ones who get blamed when a failure happens. It's a tightrope walk with no safety net.” (R5)

This theme highlights how the regulatory identity is not merely institutional but deeply personal, often leading to emotional labor and ethical dilemmas.

Balancing Innovation and Prudential Discipline



Navigating Uncharted Regulatory Terrain

Several respondents emphasized the challenges of regulating fast-moving digital financial technologies, particularly in the absence of established legal frameworks or global consensus.

“Crypto, neobanks, algorithm-based lending there’s no regulatory map for these. We are forced to interpret principles in a world where rules haven’t caught up.” (R1)

“Most of the time, we are regulating grey zones. There are no precedents. It's like building the plane while flying it.” (R4)

These narratives reflect a collective experience of regulatory ambiguity, where decisions are often made with incomplete information, reinforcing a sense of professional uncertainty.

Institutional Pressures and Political Interference

Another recurring theme was the perceived interference from political or economic actors, which complicated the regulatory task and at times diluted their autonomy.

“We know what the right thing to do is, but sometimes it’s politically inconvenient. When innovation is backed by powerful interests, prudential concerns are often sidelined.” (R3)

“There are moments when the voice of the regulator is silenced or delayed, not because we lack clarity, but because the timing isn’t ‘strategic’ for other stakeholders.” (R6)

This theme reveals how external pressures disrupt the ideal of neutral, principle-based regulation, introducing elements of compromise and delay that participants find ethically troubling.

Moral Responsibility and the Weight of Consequence

Regulators expressed a deep awareness of the social impact of their decisions, particularly in preventing financial crises and systemic failures.

“We are not just gatekeepers we’re guardians of public trust. One misstep could trigger panic, especially in the digital space where information spreads in seconds.” (R2)

“The pressure is immense. The fear is not regulatory failure, but the failure to foresee what’s coming next. It’s a job that requires both foresight and humility.” (R7)

This final theme encapsulates a sense of moral accountability that transcends bureaucratic function. Participants view their role as protectors of systemic integrity, often bearing the psychological burden of anticipating worst-case scenarios.

Collectively, these themes unveil the essence of the regulatory experience as a dynamic interplay between innovation and caution, autonomy and influence, vision and vulnerability. Regulators do not merely enforce rules they inhabit a complex landscape where policy, politics, technology, and public trust converge. The lived realities articulated by participants demonstrate that the act of regulation is inherently interpretative, emotionally charged, and fraught with evolving risks.

DISCUSSION

The findings of this study reveal a deeply layered experience among financial regulators who face a continuous negotiation between advancing digital innovation and upholding prudential standards. The lived experiences gathered through interpretative analysis emphasize internal conflicts, moral responsibility, institutional pressure, and professional uncertainty as central themes shaping regulatory practice in digital finance.

These findings directly address the core research question regarding how regulators interpret and navigate the tension between innovation and prudential compliance. Rather than simply executing policy directives, participants revealed that regulation is experienced as an ongoing interpretative act one that involves balancing professional duty, ethical judgment, and contextual awareness. This study contributes a unique perspective by centering the voices of regulators and exposing the emotional and cognitive processes involved in their decision-making. It highlights that regulatory discretion is not a mechanical function but a human act rooted in meaning, vulnerability, and reflective practice.

The present findings complement and extend prior studies that have focused on structural and procedural analyses of regulatory systems. While Zetzsche et al. (2020) and Arner et al. (2021) mapped cross-national responses to fintech and RegTech developments, they did not engage with the subjective narratives of regulators themselves. Similarly, Omarova (2021) identified the rise of institutional complexity in digital finance but did not explore how such complexity is internalized by those tasked with managing it. This study fills that gap by offering a phenomenological lens on how regulators make sense of evolving challenges, thereby enriching the discourse on financial governance with grounded human experience. The insights also align with Dombret & Lewrick’s (2022) argument that supervisory technology must be reconciled with human factors, underscoring the need for interpretative capacity within regulatory institutions.

The findings of this study offer both theoretical and practical implications for the field of financial regulation. On a theoretical level, the study underscores the importance of incorporating human experience into models of regulatory decision-making, especially in contexts where ambiguity and ethical tension are prevalent. Practically, the results suggest that regulatory bodies should provide structured support systems such as reflective forums or ethical deliberation workshops to help regulators manage internal conflicts and navigate innovation-related dilemmas. These insights are particularly relevant in jurisdictions undergoing rapid financial digitalization, where regulatory discretion increasingly involves navigating political, institutional, and technological pressures. By shedding light on the human dimension of regulation, the study calls for more empathetic and reflexive approaches to institutional governance.

Despite its contributions, this study is not without limitations. The findings are based on a small, purposively selected group of regulators from specific institutional and geographical contexts. As such, the interpretations presented may not be representative of all regulatory environments or systems. Additionally, the use of interpretative phenomenological analysis, while suited for capturing depth and nuance, limits the generalizability of results to broader populations. These limitations are not weaknesses but rather boundaries that define the scope of the study, pointing toward areas where further empirical exploration is needed.

Future research could build on these findings by expanding the sample across multiple regulatory agencies, countries, or types of financial markets to explore comparative experiences. Longitudinal studies may also be valuable in understanding how regulatory interpretations evolve over time, particularly in response to emerging crises or policy reforms. Furthermore, interdisciplinary approaches combining phenomenology with behavioral finance or institutional sociology could offer richer insights into the complex interplay between individual agency and structural constraint in regulatory practice. Such directions will help advance a more holistic understanding of financial regulation that integrates both systemic design and human meaning.

CONCLUSION

This study explored how financial regulators experience the tension between promoting digital innovation and maintaining prudential oversight. Using an interpretative phenomenological approach, the research uncovered four key themes: internal conflict, regulatory ambiguity, institutional pressure, and moral responsibility. These findings reveal that regulatory work is not merely technical or procedural but deeply human, involving ethical deliberation and personal meaning-making. The study addresses a critical gap in existing literature by highlighting the lived experiences of regulators, which have been largely absent in prior research. It offers practical insights for strengthening institutional support systems and enhancing reflective practices within regulatory agencies. Future research can expand this work by employing comparative or longitudinal designs to explore how regulatory interpretations are shaped by evolving political, technological, and institutional conditions. Key questions may include: How do regulators' sensemaking patterns shift during prolonged periods of financial disruption? How do national cultures and institutional histories influence ethical reasoning within regulatory bodies? A multi-level interpretive framework—integrating individual cognition, organizational culture, and policy environment—could guide such inquiries and enrich our understanding of regulatory behavior over time and across jurisdictions.

CONFLICT OF INTEREST

The authors declare that there is no conflict of interest.

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