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FINTECH PEER-TO-PEER (P2P) LENDING: EXPLANATION FOR THE ISSUES IN INDONESIA

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Abstrak— Financial technology (fintech) in Indonesia is developing rapidly. This is demonstrated by the acceleration of digital development and transformation in this country. The interaction between society and financial services has evolved very quickly over the last few years. On October 9, 2023, there were 101 companies as the total of Fintech peer-to-peer lending companies which listed at *Otoritas Jasa Keuangan* (OJK) or Financial Service Authority. However, from 2018 to 2023, OJK was recorded as having blocked 6,680 illegal fintech lending companies. The illegal Fintech lending companies have many risks. This research will observe several fintech lending problems in Indonesia along with the explanations of why these things occur. A qualitative approach will be used as a method in this research with NVIVO 14 software as a tool for analyzing data. The results of this study have provided an explanation of several problems that occur in Indonesia regarding FinTech P2P lending. Several of these problems are outlined into five points including: unclear admin fees; illegal access obtained from borrowers; threats, slander, fraud, sexual harassment; data misuse, high interest rates without limits.

Keyword— FinTech Lending, P2P, Financial Technology

I. INTRODUCTION

Financial technology or as known as FinTech is an innovation happens in financial sector that has grown rapidly in Indonesia these recent years. The development of FinTech itself is running with the changes of people's lifestyles which occur due to the usage of technology in the digitalization. FinTech itself is believed to be able to increase efficiency and save money in purchase and sale transactions and payment systems. The existence of FinTech is undeniably changing the business model from conventional to modern. Through FinTech, people can make payments much faster in seconds without having to meet in person or contact too many.

This phenomenon is supported by the COVID-19 pandemic that began to enter Indonesia in March 2020. The pandemic has accelerated the development of FinTech in Indonesia. The rules during pandemic that had limitation for people to have some interaction with other, made FinTech becomes the best option for transactions. Since it was first launched in 2016, the FinTech industry has grown rapidly. The growth amount of FinTech makes the financial industry plays important role of the macroeconomy in Indonesia. Based on *Otoritas Jasa Keuangan* (OJK) or Financial Services Authority, this sector has significant increased in funding distribution including small and medium enterprises (SMEs).

OJK itself has several financial services. One of them is FinTech peer-to-peer (P2P) lending. This is a platform that offers interesting and predictable returns that will make investors to be interested with the diversify of their portfolios with alternative investments. (Nigmonova, Shams, & Alam, 2024). According to OJK, in January 2024, accumulated loan disbursement amounted to 785,746.84 billion. This amount has increased by 22.6 billion compared to previous months as can be seen at Fig 1.

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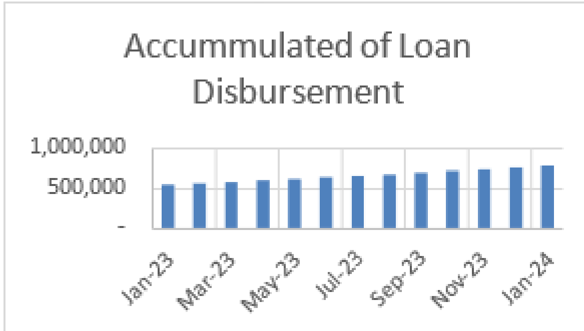

Fig. 1 Accumulated of Loan Disbursement (OJK, 2024)

The data shows that FinTech P2P lending is one of the most used services in FinTech. The data for one year, January 2023 until January 2024, is shown that the accumulated of loan disbursement always increases. Although this Fintech can be very helpful, this type of Fintech has a negative impact on the Indonesian people. This is due to the lack of knowledge about Fintech itself and several criminals who cause various problems such as the many illegal Fintech companies that have interest rates that are too high for the community.

According to (Suryono & Budi, 2019) P2P lending has six core problems. It can be named as information asymmetry, borrower credit scores, feasibility of platforms, moral danger, investment decisions, and unfriendly regulation and policies for personal data protection. For these reasons, every stakeholder is expected to immediately approve the Code of Ethics of the Fintech Loan Industry (Suryonoa, Budia, & Purwandaria, 2021). P2P lending in Indonesia is regulated in the law on FinTech lending under the Regulation of the Financial Services Authority 77/POJK.01/2016 (OJK, 2016).

The regulation contains some rules for listed FinTech under OJK which must meet several criteria such as regulation in supervision, interest and fines, compliance with the regulation itself, billing processes, associations that related to FinTech, loan conditions, the service for customer complains and protection to the access for the private data. In the end of 2019, OJK recorded 164 FinTech lending companies that has been registered and listed by OJK. However, in the early 2018, the Ministry of Communication and Information has blocked 1,350 illegal FinTech platforms. The amount of the illegal ones are nine times larger than the legal ones. The mechanisms of the illegal platforms beyond responsibility and authority of OJK, including some risks that people or borrower might have. (Suryonoa, Budia, & Purwandaria, 2021). Based on the issues, a study will be done with the title of the research, "FinTech Peer-to-Peer (P2P) Lending: Explanation for the Issues in Indonesia." This issue is something that is common in Indonesia. By the approach taken in this study, the actual issues regarding fintech P2P lending in Indonesia will be more clearly expressed. In addition, an explanation of why some of these issues occur will be clearly answered.

LITERATUR REVIEW

Researchers, (Chen, Gu, Liu, & Tse, 2020), focused on the P2P lending that growing rapidly in US and other developed countries. It stated that P2P lending itself is online marketplaces that has function to be a bridge between borrowers and lenders without traditional middleman that might be found on traditional lending. This platform is also facilitated a listing, where individual lenders can bid to meet a potential borrower's loan request by online auctions. However, P2P lending is unsecured, has a fixed term, and the amount tend to small between $2,000 to $35,000. The study on P2P lending is still developing since it is a new business model that facilitated borrower and lenders on online platform. However, the field of study is various in financial technology research. (Suryono, Budi, & Purwandari, 2020). (Nigmonova, Shams, & Alam, 2024) stated that there are some differences between P2P lending and banks. The main difference is there is no deposits for P2P lenders to make loan. It has its own rules for the borrowers. Meanwhile from the platforms, P2P offers more interesting things for the borrower.

Several previous studies have discussed P2P lending. (Suryonoa, Budia, & Purwandaria, 2021) with the title of research, "Detection of FinTech P2P Lending Issues in Indonesia." The paper has some data sources based on several sources such as Indonesian online news, the cases of P2P lending in Indonesia, the rules also policies that has relation with that. The research has qualitative method where they have a case study and Focus Group Discussion (FGD) technique. They have four stakeholders from the related industry in Indonesia. They use two software. The first one is VOS Viewer that was used for getting the keywords from Indonesian online news collection. The second one is the software for qualitative method that help to analyze the data. The result of this study is there are several things that often to be discussed keyword in Indonesia online news such as public awareness of P2P lending based on user understanding, the leakage of data, data access restrictions, including data protection, personal data fraud, illegal FinTech loans, and product marketing ethics.

Chen, Gu, Liu, & Tse, 2020 on the other hand, examines how lenders factor borrower demographic and behavioral characteristics into their P2P decisions. Different with previous research which has US and Indonesia as countries. This research has China as the object of their case. In China, there is online platform namely Renrendai from 2013 until 2015. This platform has its own characteristics for their borrowers. They set education of borrowers as the characteristics for the lending but not included age, gender, and marital status to evaluate their credit and loan performance. The higher education level of the borrower, the higher their opportunities to get funding from the platforms. Those who provided funding to them could expect to receive higher returns based on their higher education levels. So, the background of education is so important to attract the funding. On the other hand, younger female borrowers are less likely to get funded. It caused some borrowers may use more positive emotional appeals to persuade the lenders to get them funding. Unfortunately, that thing does not get positive feedback. They tend to respond it negatively.

In addition, (Caglayan, Talavera, & Zhang, 2021) examines the behavior of lenders on Renrendai.com, a leading P2P crowd-lending platform in China. This research has the same country as the previous one and use Renrendai as the platform. The total sample they used approximately five million observation of the investors' lending hours. They also applied a high-dimensional fixed effect estimator. The result of this study is the investors in the sample prefer assets have attracted strong interest in the previous period. It has relation to the experience level of investor and how long the investor has invested on the platform. The study from (Nigmonova, Shams, & Alam, 2024) states about the impact of the COVID-19 pandemic on the liquidity risk experienced by P2P lending market. The pandemic that happened for years had impact on global financial markets. That problem can be an issue that led understanding successful P2P lending under financial distress. This study used a cross-country database of secondary market listing. Unlike the previous studies that have been done in US, Indonesia and China, this study took Bondora, Estonia as the sample. It also used probit, ordered probit, and tobit regression methods with the evidence on pandemic-induced liquidity risk exposure in P2P lending market. The results of this study show that COVID-19 risk increases the probability of successful listing during pandemic since the situation of the pandemic supported people to have digital transaction more than traditional one. Simultaneously, the investors who dominated the market during pandemic were experienced investors. The finding of this study stated that certain tendencies in financial market during pandemic-induced turmoil.

II. METHODS

This study is using qualitative approach with systematic literature review that was carried out as a method. The qualitative approach was chosen and carried out with focused and in-depth considerations. Moreover, the problems raised in this study are problems that are currently rampant in Indonesia. This qualitative research that is analyzed in depth can produce a clearer and more comprehensive description with the support of a literature review that has been systematically observed. This research was conducted in five stages. The first stage is data collection from various secondary data sources consisting of: YouTube, online news, proceedings, research articles, and e- books. The second stage is the reduction process after auto coding where if the news is not related, it will be deleted. The third stage is the process of creating coding which is the answer to the research question which is carried out on all data sources. The fourth stage is coding visualization which is the process of depicting the resulting coding scheme. This stage will produce information on what coding is confirmed from the combination of data sources. The last stage is drawing conclusions according to the answers to the research questions by sorting the coding made based on the order of the most confirmation. The coding made is considered strong if the coding is confirmed from at least the three data sources studied (Moon, 2019). The initial search was conducted by researchers on reputable indexed journals sourced from ScienceDirect using the keywords FinTech lending and P2P. during the period 2019 to 2024. Meanwhile, other searches from YouTube were taken from several seminar videos or news related to P2P lending. Likewise with online news, proceedings, research articles, and e-books. All processes were carried out using NVIVO 14 software.

III. RESULTS AND DISCUSSION

This study successfully obtained several data that can be used as data to answer research questions. The coded data is data during the research period, namely 2019- 2024. The following is a description of the data sources: There are 12 data sources with relevant and mutually confirmed coding. The coded data is the latest data for the last six years and most of the data is data from this year.

Table 1. Description of Research Data

Description	Amount
The number of proceedings can be processed	1

The number of journals can be processed	6
The number of YouTube can be processed	3
The number of online news can be processed	2

Source: Tabulated by Researcher (2024)

The data consists of one proceeding (Yuniarti & Rasyid, 2020). The data came from six journals (Basha, Elgammal, & Abuzayed, 2021); (Yeh, Chiu, & Huang, 2024); (Deng, 2022); (Hadiyati, 2021); (al, 2024); (Pranoto, Kholil, & Tejomurti, 2019). There were two data from online news (Rossiana & Mulia, 2024) and (Dessy, 2024). There were three data on YouTube (Sirait, 2021), (Rizki, 2024), and (Robert, 2023). Information on the data collected to answer the first research question and the data reduction process is presented in Table 1. If a coding is confirmed from at least three data sources, then the validity of the data has reached (Rooshenas, Paramasivan, Jepson, & Donovan, 2019).

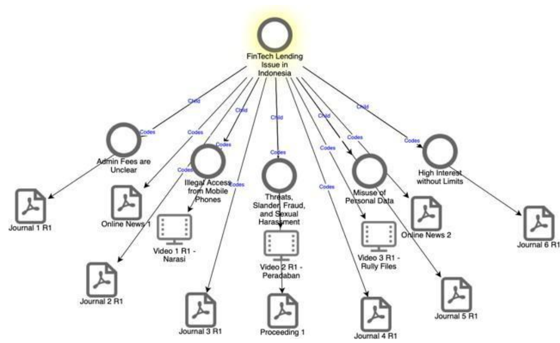

Fig.2 Data Validity

Based on Fig. 2, all coding has been confirmed more than three times. According to (Natow, 2020), validity will be even stronger if the data sources processed are based on different groups. As previously explained, the resulting coding was confirmed in several ways from proceedings, journals, YouTube, and online news. Therefore, it can be concluded that the coding above has a strong level of validity and has been confirmed from several sources. The following is information on data collected and processed with NVIVO 14 software in Table 2.

Table 2. Coding Recapitulation

Source	Coding Intensity	Coverage
(Basha, Elgammal, & Abuzayed, 2021)	1	0.07%
(Yeh, Chiu, & Huang, 2024)	1	0.18%
(Deng, 2022)	1	0.26%
(Hadiyati, 2021)	8	2.85%
(al, 2024)	5	0.83%
(Pranoto, Kholil, & Tejomurti, 2019)	11	7.85%
(Rossiana & Mulia, 2024)	3	5.56%
(Dessy, 2024)	6	7.84%
(Sirait, 2021)	8	100%
(Rizki, 2024)	4	100%
(Robert, 2023)	6	100%

(Yuniarti & Rasyid, 2020)	5	4.57%

Source: Tabulated by Researcher (2024)

Based on the table, first reference has 0.07% coverage based on the statement that the failure of lenders from P2P is because they are not able to increase the chance of the default when high default risk cannot be covered by high interest rate. Based on the second reference that has 0.18% coverage, it can be known that P2P in China also has problem since 2016. The problem is similar with P2P in Indonesia, the lack of regulatory system that leads to the closure of some platforms. The third reference has 0.26% coverage by the coding technology that exploits regulatory arbitrage but does not reduce information asymmetry may not benefit the society. The fourth reference has 2.85% coverage from several statements in the coding. The growth and development of P2P lending becomes trend in Indonesia. It does not matter if it is legal or illegal, the trend can break the "unbankable society". This society is the phenomenon where people has difficulty to apply some load in bank because they have several steps and criteria. They also require the borrower to have guarantees. Meanwhile, on P2P lending, the steps are way easier than bank. The legal P2P lending has more strict rules but still easier than bank loan. On the other side, the illegal P2P lending provides very easy loan to the borrowers. Interesting offers and easy steps that they provide make society lack of their wisdom to borrow some money that led them to over- indebtedness or excessive debt until they do not have ability to pay. Those things triggered a phenomenon of "digging a hole and covering a hole" in implementation of P2P lending that occurs in Indonesia. One of the examples is there are women who work as factory workers who have debts on 20 P2P lending companies. Mostly the amount that they borrow is not that big, but since the interest rate that is very high, their debts turn to the amount a few times higher than the amount they borrow. It can be caused by their lack of financial literacy because they are not aware of the high interest rate. On the other side, due to unexpected events during COVID-19, they have layoff that impact their economic conditions while the predatory of illegal P2P lending is still operated freely.

The fifth reference 0.83% coverage. It stated that FinTech has a negative impact on banking performance in Indonesia. It has several reasons. One of them is liquidity can signal bank default, which is indicated by a decrease in Third-Party Funds (TPF). This lack of liquid assets may lead banks to make interbank loans or sell reserve assets, which can increase credit risk. Overall, the relationship between liquidity and credit risk in the banking industry is complex and uncertain. While FinTech can be a competitor to banks, the collaboration between the two can lead to reduced liquidity risk and credit channel, hence decreasing bank risk. The sixth reference has 7.85% coverage from coding. It stated that tapping personal data can be in the form of photos and telephone numbers contained in the mobile phones and then accessed by the By enabling individuals to ask questions interactively 24/7 and receive personalized answers and examples, they believe if technology such as Artificial Intelligence (AI) can boost financial literacy because of the easiness they offer to people. The eight- reference haws 7.84% coverage that stated if the problem that affects online P2P lending lingers in some key areas such as the detail of loan, the status of financial, the credit status, and personal information. These issues can be solved if the regulator can make policies and rules. The process of P2P lending needs to be monitored and controlled to minimize the criminal acts occur by the time.

The ninth reference has 100% coverage that stated if the FinTech has some negative impact such as the borrower can only agree to existing terms and conditions. There is no equal standing between the borrower and the lender, based only on electronic agreements. There were also 3,975 illegal Fintech that have been blocked but can then easily create new ones while from the government itself there is no resolution of the problem and there is no imposition of appropriate sanctions if the victim complains about that even the illegal FinTech often includes the logos of several state institutions without approval and the debt collection is carried out through threats, fraud, distribution of personal data, slander and sexual assault. The tenth reference has 100% coverage that stated the victim received a fraudulent link to borrow. When the victim downloaded the application and filled in the data, without applying for a loan, they got funds all sudden with online loan interest is 0.4% per day, 12% per month, 36% per 3 months. The eleventh reference has 100% coverage that stated if the desk collection will attack the mental of their borrowers until they pay no matter, they will cause depression or even suicide. Since they can access the contacts and social media of their borrowers, they will use it to threat the borrowers and people around them. The last one has 4.57% coverage with the statement if Indonesian Consumers Foundations stated if they received complaints related to P2P lending. It was ranked second highest complaints they received in 2018, especially regarding billing methods. Jakarta Legal Aid Institute, per November 2019, received 1,330 complaints from 25 provinces in Indonesia regarding P2P lending, legal or illegal.

IV. CONCLUSION

The results of this study have provided an explanation of several problems that occur in Indonesia regarding FinTech P2P lending. Several of these problems are outlined into five points including: unclear admin fees; illegal access obtained from borrowers; threats, slander, fraud, sexual harassment; data misuse, high interest rates without limits. Based on this study, there are many gaps that still need to be fixed from all sides. From government, it is expected to be able to protect its people which is the consumers and producers. Meanwhile from the consumers, it is expected to understand and more aware about financial literacy. For the company or producer itself, it is expected to run the business healthily without committing criminal acts. Due to several limitations in this study, a detailed solution cannot be conveyed. This can be an opportunity for further research to reflect on several existing problems even until 2024.

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