

P2P Lending Schemes for Funding Student SME Business

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Abstract— Nowadays, “student entrepreneur” is being a phenomenon. They usually fund their business using personal saving or loan from relatives. To make their business grow, they need to increase their funding but they are still not bankable. P2P lending may address that problem by providing alternative financing for student SME business. This research is focusing on finding suitable P2P lending scheme for college student. We do analysis of P2P lending scheme for business in four country: Indonesia, USA, UK, and China. There is also survey of characteristic of student SME business. In result, most of student business is a micro business with revenue less than IDR 5 million a month with business period less than a year. Their source of funding is mostly from personal saving and loan from family and friends. Most of them never try to get funding from bank because of collateral and inexperience factor. Yet, most of them still never hear about P2P lending at all. Their main factor of choosing lending is interest rate and administration process. Finally, in this research we provide suggested suitable scheme of P2P lending that possible for funding student SME business using university involvement to assess student business qualification.

Keywords—Business Lending, MSME business, P2P lending, Student business, Student Entrepreneur.

I. INTRODUCTION

“Studentpreneur” or student entrepreneur is a phenomenon that implied nowadays situation that are a lot of college students start to build a business as their “side job” besides doing daily activities as a students. Student entrepreneur business is categorized as SMEs (Small Medium Enterprise) that usually fund their business by bootstrapping (using existing resource such as personal saving) or borrowing money from relatives. In order to make their business grow and expand, they need to increase their funding. But as a college student which still have no stable income, therefore it is risky for bank for giving them fund. Also as a part of SMEs classic problem is a barrier in collateral requirements and high lending rate to access the loan from banks [3]. But in this technology era, those problem can be addressed via financial technology.

Financial technology (fintech) in Indonesia have rapidly emerged in recent years as an effect of internet revolution and also mobile internet revolution. According to Indonesia Fintech Report 2016, there are more than 150 fintech startups in Indonesia with the growth reaches 78%. Those financial technology comes with several products such as Payments, Investment, Crowdfunding, and Lending [5] and [6].

Fintech in Indonesia comes as innovation of currents products and services provided by traditional financial services. One of the fintech products that able to address SME issue is peer-to-peer lending. The term peer to peer lending (abbreviated as P2P lending) itself can be described as an internet-based application where individuals can directly borrow money from each other [4]. The first P2P lending platform is UK-based “Zopa” in 2005 and US-based “Prosper” in 2006 [8]. In Asia, the emergence of P2P lending platform was started in China by 2007 pioneered by PPDAI that focused in lending for online small businesses that sell through Alibaba/Taobao [1]. However in Indonesia, the emergence of local online peer to peer lending just been started at year 2016.

P2P lending platform have promising future for supporting economic growth in Indonesia by alternative financing for business, especially for small and medium enterprise (SME) business which some of them are still not bankable. In 2013, around 60% adults in Indonesia not having account at formal financial institutions and 49 million SMEs unit not yet bankable. SME itself has a big prospect for driving Indonesia economy in the future. According to data from Indonesia Ministry of Cooperatives and SMEs, in 2013 SMEs contributes around 59% of total GDP in the country and 97% of total workers [2].

The P2P lending platform have potential to address this financial constraint facing by SMEs that built by college student by providing alternative finance which have no or obtainable collateral, competitive rate of interest, simple procedures, also fast lending approval and disbursement. Although some P2P lending platform for SMEs in Indonesia have been established and getting rapid growth, research about this topic in Indonesia itself is relatively new and limited. In previous study, there are no particular research that discuss about P2P lending schemes for segment of student business. The study that used as a reference for this research is mainly coming from USA, Europe, and China. There are only four P2P Lending studies that used as a main reference for this research as they discuss specifically about scheme and it indicates how limited the sources of this research are. This research is conducted to find the suitable P2P lending schemes for SME business that run by college student by analyzing the type of business, the entrepreneur, and the current scheme. Finally, this research is expected to be implied as reference of developing P2P lending platform schemes in Indonesia, either for developing existing platform and new platform in the future.

II. LITERATURE REVIEW

A. Previous Study

Below is the previous study related to P2P lending and studentpreneur field that used as a reference to write this research:

Table 1. Previous Study

No	Title	Author	Scope	Objective	Method
1	The Rise of Peer-to-Peer Lending in China; an Overview and Survey Case Study	Luke Deer, Jackson Mi, and Yu Yuxin (2015)	China	To give SMEs communities and organizations around the world a better understanding of P2P lending as a viable option for their financing needs.	Qualitative approach analysis based on primary research (interview and online survey)
2	The Business Models and Economics of Peer to Peer Lending	Alistair Milne, Paul Parboteah (2016)	UK (using comparison of P2P platform in USA and another country)	Provide an overview of P2P Lending (explaining, comparing with other forms of P2P finance, documenting the development in UK and other countries)	Reviewing P2P lending in UK and other countries, and assessed the business and economic policy. No information available that explain the collection process of the data.
3	P2P Lending Surveys: Platforms, Recent Advances, and Prospects	Hongke Zhao, Yong Ge, Qi Liu, Guifeng Wang, Enhong Chen, and Hefu Zhang (2017)	USA	Provide comprehensive review about recent works in P2P Lending (summary of existing P2P lending platform, review of recent research works, and also prospects and future research direction.)	Collecting literatures and analysis on real-world data collected from Prosper and Kiva.
4	Peer-to-Peer Lending: A Financing Alternative for Small Businesses	Miriam Segal (2015)	USA	Examines data on P2P lending to small businesses and discusses implications regarding its future.	Qualitative approach by secondary data from Lending Club
5	Development of Small and Medium Enterprise in Developing Country: The Indonesian Case	Tulus Tahi Hamonangan Tambunan (2011)	Indonesia	Examine the role of SMEs in Indonesia and its critical constraint.	Analyzing data from Indonesia's National Agency of Statistics and reviews key literature and secondary data on Indonesian SMEs.
6	Digital Banking for Small and Medium-Sized Enterprises: Improving Access to Finance for the Underserved	Deloitte (2015)	Southeast Asia	Defining roles and development of SMEs in Southeast Asia	Secondary data from government statistics.

Those five studies attached above is main references to write this research as they containing clear explanation about P2P Lending and SMEs. Study number 1 is actually a report conducted by ACCA (the Association of Chartered Certified Accountants) in China. The report gives a clear understanding about the rise peer-to-peer lending in China: the investors, borrower, platform, and regulation based on survey and interview. But in the conclusion, the report only describe what the author find and not suggesting any solution for P2P lending development in China in the future.

Paper number 2 by Alistair Milne and Paul Parboteah review the P2P Lending in UK and other countries, its development, and assesses the business and economic policy issues surrounding this new form of intermediation. Their explanation about the term of P2P lending in UK and P2P lending business model is clear enough (as the author comes from UK) but only a little information about P2P Lending in other countries (only point of comparison).

Paper number 3 and 4 have similar topic which is defining P2P Lending by comparing the platform characteristic. Paper number 3 is more specific as they comparing two work mechanism of alternative funding in US: Prosper and Kiva which one of them is P2P lending (Prosper) and one of them is crowdfunding (Kiva). Meanwhile paper number 4 comparing the work mechanism of Lending Club with another P2P lending platform. As a

reference for SMEs data in Indonesia, this research using paper number 5 by Tulus Tambunan and report of SMEs in Southeast Asia by Deloitte.

B. Conceptual Framework

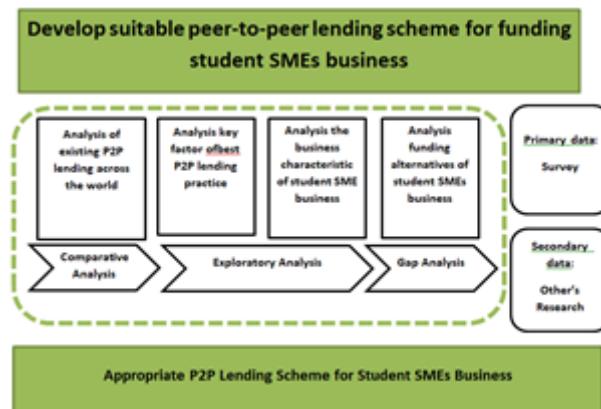


Figure 1. Conceptual Framework

Basically, conceptual framework gives a general explanation about the background of this research, methodology that is used in this research, and the result of this research. This research will conduct four analysis. The

first analysis will be about existing p2p lending schemes in Indonesia and another country (US, UK, and China).

Next analysis are finding the key factor of best P2P lending practice and analysis of the business characteristic of student SME business. After examining all P2P lending across the country, there will be summary about what the key factor of best P2P lending schemes and analysis of business characteristic through the questionnaire result. Lastly, this research will analyze the funding alternatives of student SMEs business and their P2P lending scheme preference. The analysis of target market will be done through the questionnaire. The data will be analyzed using descriptive analysis.

III. METHOD

This research is using descriptive-quantitative approach. Quantitative research designs are either descriptive or experimental. In a descriptive study, no attempt is made to change behavior or conditions as researcher measure things as they are. In an experimental study, researcher take measurements, try some sort of intervention, then take measurements again to see what happened. For this research, we collected the data from primary and secondary source. The primary data is obtained by survey. The survey was conducted for gathering the data about the overview of student business, especially about the funding and also their knowledge of P2P lending so far. Besides of that, survey will give an insight about the appropriate scheme for funding student SME business through P2P lending. As far as data collection tools were concerned, the conduction of the research involved the use of questionnaire. The questionnaire itself was spread through June and July 2018 to 100 students that run a SME business while studying in university (bachelor degree)

While the secondary data is collected from literature about current P2P lending scheme in Indonesia. In addition, the P2P lending from another country such as UK, US , and China is also included to know about their current schemes of P2P lending and find out the possible adaptation for P2P lending scheme in Indonesia context.

The analysis for the data collected in this research will be using descriptive statistic. It is describes collected data through several parameters such as mean, median, and mode. Descriptive statistic is also implemented to give the picture of target market condition.

IV. RESULT AND DISCUSSION

A. P2P Lending Scheme in Indonesia

By March 2018, there are 40 P2P lending company that has been registered in Indonesian financial service authority (OJK). These P2P lending company has been distributed loan around 3 biillion rupiah to Indonesian people through their various loan scheme: consumer lending and business lending. In this research, we will only take several company that provide loan for business only, so P2P lending for consumer lending is not included. Below is the comparison about business lending scheme in some Indonesian P2P lending company.

In requirement part, all of P2P lending companies only accepting borrower that has Indonesian citizenship. The

minimum business duration varies between 6 months (Sofis and Taralite) to 2 years (Investree and Koinworks). Most of P2P companies only provide loan for business that comes from big city (Jabodetabek, Bandung) except Amarta that focusing on microfinance in remote area. Some of them mention the requirement of minimum annual business revenue but most of them are not. Business document such as legal document, NPWP, financial report, and bank statement is needed by some companies such as Modalku, Sofis, Akseleran, adn Kredito.

Most of P2P lending company offers loan for working capital, but Investree has particular scheme of invoice financing and sharia lending. There is no collateral needed for all companies. Most of them does not mention specific lending rate, but it varies around 9% to 30% depends on credit rating. The admin fees is also varies around 1% to 4% depends on credit rating. According to the website, the fastest disbursement process is Taralite (5 days) and the longest process is Koinworks and Investree (14 days).

B. P2P Lending Scheme in USA

The United States along with the UK has been the pioneer in the development of P2P lending. Differs with situation that happened in Indonesia when online lending is mostly P2P lending, in USA online lending is divided into some categories. Based on the research of Milken Institute in 2016, P2P lending in USA divided to marketplace platforms and balance sheet platforms. The main difference between marketplace platforms and balance sheet platforms is that balance sheet platforms hold the money they lend on their balance sheet, while marketplace platforms enables investors (lenders) to lend money to borrowers directly. A marketplace platforms provides the infrastructure required to facilitate the funding arrangement. Both parties generate value, with investors earning yield and borrowers getting the funding they require. They have bought or borrowed it at a cost to then lend out to their customers. As it's their money, the lender takes on all the risk. Below are the comparisons about some online lending company in USA that provide lending for business, picked based on their categories. There will be Lending Club and Prosper (representate marketplace platform) also SmartBiz and Rapid Advance (representate balance sheet platform).

In requirement part, Lending Club requires shortest business duration (1 year) and lowest credit rating (660). The highest credit rating required is Smartbis (750) and looks significant than any other company. In term of loan, Prosper gives the least amount. The interest rate is varies from 9% to 35%, while the admin fee is also vary from 1% to 7% depends on the credit rating. There is no collateral needed. Based on the website, the disbursement process is faster than P2P lending in Indonesia which is around one to seven days.

C. P2P Lending Scheme in UK

P2P lending has grown rapidly in the UK.. In 2015, P2P lending makes an important contribution about 13% of the supply of new loans to small enterprises (those with turnover of £1 million or less). There is also a large and growing volume of P2P unsecured consumer lending, but

this still accounts for only a small share of the total UK market for unsecured loans. In UK, the P2P lending providers is divided into three segments: consumer, business, and property. In this research, we will attach the examples of schemes in UK P2P lending that provide loan for business.

In requirement part, Rate Setter requires longest business duration (3 year). Only Funding Circle that mention minimum credit score on their website, most of them do not. The interest rate is lower than USA, between 5% to 27%. The significant difference is the P2P lending in UK requires collateral (secured loan) compared to USA which the P2P lending does not require collateral.

D. P2P Lending Scheme in China

China's online peer-to-peer lending sector is of pioneer of P2P lending in Asia. The number of providers has grown rapidly since 2007, when China's first P2P lending platform, Paipaidai, started operating. By the end of 2011, 50 providers were reported to be operating and this had increased to over 1,500 providers by the end of 2014. The biggest expansion in the number of platform of P2P lending in China was happened until year-end 2015 with up to 3,477 platform operating in the country. But since year-end 2015, the number of P2P lending platforms is decreasing. Many of these platforms collapsed also because of fraudulent activities such as Ponzi schemes. Ponzi scheme is the fraudulent investment scam with the promise of large returns with little risk as bait. The fraudster takes in money from new investors and uses it to pay off the earlier investors and may keep some for themselves. This is also the reason why stricter rules on P2P lenders were applied in 2016. Lately by April 2018 the new rules is applied which are P2P lending are barred from guaranteeing principal or interest or loans they facilitate, are limited loans of no more than Rmb 1 million of individual borrowers and Rmb 5 million for companies, and must using custodian banks. Some P2P lending platforms has collapse from 3,383 platforms in January 2016 to 1,883 platforms in Marc 2018 as the effect of tightens regulation.

P2P Lending in China has three different main scheme: mostly online, mostly offline, and mixed between onine and offline. The example of those three platforms are CreditEase.cn (mostly offline), Tuandaiwang (mostly online), and also Dianrong (online and offline).The data related to loan scheme detail is very limited, but one platform CreditEase mentioned that the loan interest for borrowers varies of 12-24% including flat charge 12% p.a. In China, beside market lending, there is also secondary liquidity markets as owned by Jimubox.

E. Preferable Lending Scheme for Student SME Business

In this part, we let student entrepreneur to choose their preferable scheme of lending. There are four options. The option represents the different scheme of existing loan provider. Option A represents the P2P lending for business scheme in Modalku and other company that have similiar scheme. Option B represents the scheme of business credit program provided by bank as government program. Option C represents the invoice credit provided by Investree. And option D represents the consumer lending of P2P lending

that also provide loan that able to used as business capital but with very small amount. This part is divided into three question, so the respondent will not confused in comparing lot of factors. In first question, student are asked about their choice based on loan purpose, loan amount, interest rate, administration fee, and loan duration. In the first part student mostly choosing option B which represents the scheme of bank. Among other options, B is superior in lowest interest rate and longest loan period. In the second part, respondent are given questions about collateral and document needed. Most of students choosing scheme D which requires no collateral and simpler document. In the third part of scheme question, students are asked for the scheme of disbursement process, early payment charge, and late payment fee. Based on the survey, 63 students choose scheme D, it means that they prefer disbursment process factor as their main concern.

Table 2. Factor of Choosing P2P Lending

No	Factor
1	Website interface design
2	Document / administration requirements
3	Loan amount
4	Company reputation
5	Interest rate and fee
6	Loan period
7	Loan disbursement

Table 2 above shows the factor that used as a consideration for choosing P2P lending company. In this part, respondent are asked about which are main factors that they consider of choosing P2P lending company. Respondents are allowed to choose maximum three main factors.

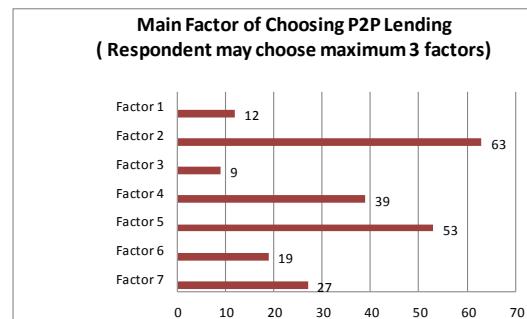


Figure 2. Student Factor of Choosing P2P Lending

Based on the chart above, the top three main factors that chosen by respondents are factor 2, factor 5, and factor 4. Those three main factors are document/administration requirements becoming more simple, lower interest rate and fee, and also good company reputation. This result are parallel with the result of scheme preference question while most student choosing the scheme with lowest interest rate and simple administration requirements. Nevertheless, interest rate and administration requirements is such an opposite. Interest rate depends on the risk of the borrower, and one of the way to determine the

borrower risk is by looking at their document completion. A borrower that have complete document is possible to get lower interest rate because they carry lower risk than borrower that have less complete document.

V. CONCLUSION

P2P lending has become one of financial technology that grown rapidly in Indonesia and also other part of world (UK, US, China). In Indonesia, all of P2P lending have more simple document requirement compared to bank and faster disbursment process, but they have higher interest rate due to higher risk that they also carry. The coverage area of most P2P lending in Indonesia is also centered in Jabodetabek and Bandung. None of them has particular program for business that run by college student.

In developed country such as UK and USA, they have credit rating that help them in borrower assessment. Both of them has similar scheme, but most UK P2P lending company prefer to give secured lending than unsecured one. Meanwhile in China, most platform are not giving their scheme transparently to the website, especially about the administration requirements. But based on this research, they are divided into platform that rely in mostly online process, mostly offline process, and combination between online and offline process.

According to the survey that conducted in this research, most of business that run by college students have revenue less than 5 million per month, running less than 1 year, and only need less than 5 million as their capital. Also, most of them do not have complete legal document yet. Their source of funding mainly depends on their personal saving and family / friend. Most of them never try to get funding from bank with the big constraints of collateral requirement and inexperience factor.

Based on the survey, two main factor of choosing P2P lending is low interest rate and simple administration process. Meanwhile loan with “simple” administration process with no collateral and no legal document required will carry higher risk to the lending company than the loan with collateral and legal document required in it. For student business loan, university as a student learning media may support the P2P lending program as doing borrower assignment scheme for student. Therefore the aim of “simple administration process” with the low interest rate will be possible to reach. University can be used as a guarantor for the student entrepreneur. Below is the proposed suitable scheme of P2P lending that possible for funding business that run by college students based on our survey and analysis, using university involvement to assess student business qualification.

Last but not least, for future research, there are three practical recommendation related to this research. Firstly, recommendation or student entrepreneur. Student must be able to adapt with technology that will ease them to grow their business. They are required to always stay up to date and never stop to looking for information to make their business grow. Secondly, recommendation for university incubator. Later on, the university incubators is suggested to partner with P2P lending company using our scheme alternatives in order to actualize the real experience of funding business in student. Thirdly, recommendation for P2P Lending company. In the future, P2P lending company is expected to consider funding business that comes from small city and rural area too. P2P lending company is also expected to facilitate loan scheme based on their business characteristic because they have their own need. So that the distribution will be more optimized and the support for SME economics will come thoroughly.

P2P Lending Scheme for College Student		
Requirements	Status of Student	Student from university that has been collaborate with P2P lending company
	Business Duration	Minimum 1 year
	Business Location	Same city with university that has been collaborate with P2P company
	Student Semester	Minimum on 5th semester
	Business Revenue	Minimum 2 million per month
	Business Form	Individual, partnership, CV, PT
	Student GPA	Minimum 3.00
	Document	<ul style="list-style-type: none"> • KTP and Student ID • Transcript • Recommendation letter from lecture or student organization (lembaga kemahasiswaan) • Financial report • Information of any social media and online marketplace used for selling the product
Loan	Loan Amount	IDR 20 million to 100 million
	Tenor	6 to 20 months
	Interest	12-30% p.a. (depends on borrower score)
	Collateral	No
	Debt Repayment	Monthly
	Admin Fee	2%
	Late Payment Charge	0.2%
	Loan Process	3-7 working days

Table 3. Suggested P2P Lending Scheme for College Student

Meanwhile related to recommendation for future research, here still some space of improvement in order to bring this research becoming better in the future. For example, future research may explore P2P lending scheme based on another segment of borrower beside college student, or even based on investor point of view. In future

research, there also possibility for adding more country as a benchmark of comparison to P2P lending in Indonesia scheme

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