

Attendance Challenge Peer to Peer Lending Economic Development in Indonesia

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ABSTRACT--*The big challenge to be aware of the government over the presence of peer to peer lending in the economic development of Indonesia, and even pose many risks for related parties. Risks to the organizers collector (user), to the recipient (borrower) and to the lender (investor), and risk of loss to the organizers for example by misusing the funds and for the recipient to remove themselves or do not pay the debt at all because it provides personal data is lacking complete and detail when applying online for deals that greatly influenced and very easy to offer via SMS. Advantages include a very fast process favored by the customer, but need to be considered and reviewed the presence of peer to peer lending for prudential principles like the bank does absolutely nothing. Risk Lender to apply the precautionary principle in determining the Operator P2P Lending as a media investment. Figuring out the track record of the organizers of P2P Lending, and can distinguish between legal and illegal Operator. Borrower risk. Before applying for the loan, the Borrower shall study and find out the background of the Operator which will serve as the media give him a loan. It is important to avoid billing inhumane by the Operator P2P Lending illegal. The borrower must know the amount of interest to be paid and the ability to pay on the loan. Organizers risk.*

Keywords: *challenges, peer to peer lending, economic development, risk, organizers, borrowers*

I. INTRODUCTION

The development of technology and globalization today is felt in the economic and financial sectors. It is felt by the rapid development of the Institute of Financial Services.¹This is done by making use of sophisticated technology, that led to innovations in financing is a financial technology (fintech) that support the digital era. Fintek present to emulate the traditional financial methods in performing financial services. Fintech increasingly caught the attention of consumers for greater ease of access to reach consumers and more modest in their business processes.²

Occurrences fintech industry peer to peer lending (P2P Lending) in Indonesia due to the high level of unbanked category in Indonesia. This causes a lot of individuals and

SMEs that are unable to obtain loans from conventional banks. Inversely proportional to the capital requirements for individuals and SMEs who want to develop their business. In 2018 SMEs accounted instead successfully Domsetik Gross Product (GDP) up to 60.34%.³But the figure is still not show a significant improvement in access to financing due to obstructed. Therefore it is P2P Lending emerged as a medium to bring together between fund providers (lenders) and those who need the funds (borrower).

P2P Lending is a new method that allows a borrower of funds, through the application or apply for an unsecured site (collateral). Peer to peer lending is growing in Indonesia today, the Association of Indonesian Fintech (Aftech) explained that the emergence of online cash loan service type of peer to peer originated from low penetration of credit cards in Indonesia. According to the FSA Peer to Peer Lending showed a very positive trend, until the month of September 2017 recorded growth of channeling funds through Peer to Peer Lending in Indonesia reached 1, 6 trillion. Meanwhile, funding outside Java Island increased by 1,074% (one thousand seventy-four percent) since the end of last year to Rp 276 billion (two hundred seventy six billion rupiah).⁴

Birth of P2P Lending fintech now become one of the solutions to help SMEs and individuals who fit into the category of unbanked to gain access to funding.⁵Fintech P2P Lending to attract the attention of consumers because of the ease of access granted to the borrower (borrower) without the need to approach the organizers of P2P Lending. By contrast, if you want to apply for a loan through a bank, which the borrower is obliged to come directly to the bank to apply for a loan. P2P Lending loan application to do the capital only the Internet and smartphones are increasingly

³ Freedom and Arthur, "Donates 60 Percent of SMEs to National Economic Growth", <https://www.liputan6.com/bisnis/read/3581067/umkm-sumbang-60-persen-ke-pertumbuhan-ekonomi-nasional>, Accessed on January 13, 2020.

⁴ Compass, "FSA:" Fintech P2P Lending "in Indonesia", <https://ekonomi.kompas.com/read/2017/11/09/193700626/ojk-fintech-p2p-lending-di-indonesia-capai-rp-16-triliun>, Accessed on January 13, 2020.

⁵ Gulamhuseinwala et al., 2015, "Fintech is Gaining Tractio and Young High Income Users are thee early adopters", *The Journal of Financial Perspective: Fintech*, pp 16-19.

¹ Ade MamanSuherman 2005, *Legal Aspects in the Global Economy*, Ghalia Indonesia, Bogor, p. 29.

² Tom CW Lin, "Infinite financial intermediation", *the Wake Forest Law Review*, Vol. 50, No. 643, October 2015.

giving appeal to the public.⁶ Parties that receive loans will have the opportunity to develop their business, so that the wheels spin faster Indonesian economy.

In Indonesia regulation regarding P2P Lending refers to the Financial Services Authority Regulation No. 77 / POJK.01 / 2016 (hereinafter referred to POJK Number 77 of 2016) About Borrowing Money Services Information Technology. The regulation is expected to become a legal umbrella for the organizers of P2P Lending, fund providers (lenders), especially special for the beneficiary (borrower). But in fact, there is still a lot that needs to be fixed on the legal protection of P2P Lending itself. The regulation is felt not provide special protection for the borrower when they wanted to apply for a loan through the website or application one of the organizers of P2P Lending.

Rampant theft of personal data is one reason author raised this writing. How billing often do not humanely using debt collectors and even involving the parties who actually do not have a direct legal relationship, until the occurrence of abuse.⁷ Ways of billing is done by inhumane to violate human rights becomes to note the government to provide a legal framework capable of providing protection for the community.

II. FORMULATION OF THE PROBLEM

How the Opportunities and Challenges faced by organizers of peer to peer lending (P2P Lending) to improve the economy in Indonesia?

A. LEGAL FOUNDATION

1. Overview of Financial Technology (Fintech)

Fintech is the use of technology in the financial system that produces a product, service, technology, and / or model new businesses and can have an impact on monetary stability, the stability of the financial system, and / or efficiency. Smoothness. Security. and reliability of the payment system.⁸ Fintech have categories consisting of: the payment system, supporting the market, investment management and risk management, lending, financing and capital adequacy, as well as financial

⁶Koinworks, "Pushing The Indonesian economy with P2P Lending", <https://koinworks.com/blog/mendorong-perekonomian-indonesia-p2p-lending/>, Accessed on January 13, 2020.

⁷EfremSiregar, "It's True Story, This guy defer payment to 141 Fintech Lending", <https://www.cnbcindonesia.com/tech/20190811132240-37-91172/ini-kisah-nyata-orang-ini-ngutang-ke-141-fintech-lending>, Accessed on January 13, 2020.

⁸ Article 1 (1) of Bank Indonesia Regulation Number 19/12 / PBI / 2017 on the Implementation of Financial Technologies (State Gazette of the Republic of Indonesia Year 2017 Number 245, Supplement to the State Gazette of the Republic of Indonesia Number 6142).

services lainnya.⁹ Attendance fintech provide alternative financing function to become more democratic and transparent outreach with memnfaatkan technological advances to encourage prosperity and fulfillment.

2. Overview Peer to Peer Lending (P2P Lending)

P2P Lending or Borrowing Money Services Information Technology is the implementation of financial services to reconcile lender by the borrower in order to conduct the borrowing agreement in the rupiah currency directly through the electronic system uses the internet.¹⁰ P2P Lending is a rapidly growing industry that is now globally both the number of providers, the borrower, the lender who supported olek digital technology.¹¹

Parties involved in the mechanism of P2P Lending is:

a. Operator Operator or P2P Lending

Indonesia is a legal entity that provides, manages, and operates mechanism Borrowing Money Services Information Technology.¹²

b. Borrower

A person and / or legal entities that have debt covenant Borrowing Money Services Information Technology.¹³

c. lender

A person, legal entity and / or business entity that has a receivable for the agreement Borrowing Money Services Information Technology.¹⁴

III. FINDINGS AND DISCUSSION

⁹ Article 3 Bank Indonesia Regulation Number 19/12 / PBI / 2017 on the Implementation of Financial Technologies (State Gazette of the Republic of Indonesia Year 2017 Number 245, Supplement to the State Gazette of the Republic of Indonesia Number 6142).

¹⁰ Article 1 paragraph 3 of the Financial Services Authority Regulation No. 77 / POJK.01 / 2016 on Borrowing Money Services Information Technology (Gazette of the Republic of Indonesia Number 6005).

¹¹ Kevin Davis, Jacob Murphy, "Peer to Peer Lending: Structures, Risk, and regulation", Jassa: The Finsia Journal of Applied Finance, 2016: 3, November 2016.

¹² Article 1, item 6 of the Financial Services Authority regulation No. 77 / POJK.01 / 2016 on Borrowing Money Services Information Technology (Gazette of the Republic of Indonesia Number 6005).

¹³ Article 1 paragraph 7 of the Financial Services Authority regulation No. 77 / POJK.01 / 2016 on Borrowing Money Services Information Technology (Gazette of the Republic of Indonesia Number 6005).

¹⁴ Article 1 point 8 Regulation of the Financial Services Authority No. 77 / POJK.01 / 2016 on Borrowing Money Services Information Technology (Gazette of the Republic of Indonesia Number 6005).

P2P Lending presence challenges in improving the economy in Indonesia. P2P Lending potential to boost the economy include:¹⁵,

- a. As an alternative financing in the digital era
It has been proven by the success of the business development of SMEs. As a result given the ease of obtaining the loan, the efficiency of a very short time when compared with the filing of loans at banks and most of the loans through P2P Lending done without requiring collateral.
- b. P2P Lending businesses now also become an alternative investment. FSA has drawn up a roadmap for the P2P Lending to can synergize with conventional financial services as a funding party or lender to provide feedback or rate of interest, so it will attract many people.
- c. P2P Lending business opportunities to collaborate with the Government Program. Example is to contribute to the SBN government programs such as retail, distribution of village funds. P2P Lending may also establish cooperation with the financial services industry who are in Indonesia such as BPR, BPD, insurance, mortgages and cooperative.

P2P Lending challenge in improving the economy in Indonesia.

Potential risks that may occur in P2P Lending activities:¹⁶

- a. Organizers collect and misuse of funds and / or public data.
- b. Borrower does not pay off the debt and deliberate self mehilangkan
- c. Lender authorizes the Operator to collect a debt in a way that does not human

According to Davis and Jacob Murphy, other risks that may arise in P2P Lending scheme, namely:¹⁷

- a. The default risk of information between the lender and the provider of P2P Lending
- b. Risks associated with financial advice
- c. Liquidity risk investment
- d. The risks to the lender
- e. The risks to the borrower

P2P Lending Category challenge is:

- a. Risk Lender

Lenders in putting their funds to be conducted with the precautionary principle. Lenders should study organizers telliti where he would choose to serve as a media investment. It becomes critical because the goal of investing is to make a profit on the funds he invested. The gain is in the form of

interest agreed upon by the organizers to the lender. High interest often be the choice of the lender in determining the organizers in which he invests. Whereas the Operator with a higher interest rate does not necessarily have a good track record in determining the prospective borrower.

The concept of lending via P2P Lending has differences with existing mechanisms in conventional banks. Where every risk imposed on lending by banks will be fully borne by the bank. That is because banks make record with a model on balance sheet. While on P2P Lending inversely. Lenders must give attention to the non-performing loan (NPL) from the Operator to determine how much the level of defaults that occurred in the system lending by the Operator. Election organizers by lenders become important as mitigation of default in the mechanism of P2P Lending.

Other risks that may be faced by the lender is funds deposited to the Operator is lost or misused and / or Operator bankrupt.¹⁸ Basically it is so minimal happen, because now the Financial Services Authority requires the Operator to use an escrow service and virtual account as a shelter fund, as mentioned in Article 24 POJK No. 2016 paragraph 77 (1):

"The Operator shall use an escrow account and virtual account in order Layana Borrowing Money Information Technology"

Paragraph (2): "The Operator shall provide a virtual account for each lender."

Paragraph (3): "In order repayment of the loan, the Borrower make a payment through an escrow account to be forwarded to the virtual Organizers Lenders account."

Use of the service *escrow* and virtual account is one of the mitigation measures proposed by the Government to minimize the misuse of funds by the Operator. But in terms of credit risk mitigation or risk of default, the Government requires the Operator to establish cooperation with insurance and / or restructures the agreement in the event of bad loans.¹⁹

By contrast, if the Operator bankruptcy, the losses would be a risk of the Lender if there Borrower who has not repay the loan, while the Operator is already declining business. Entirely for the risk to be borne by the Lender as between the Lender and the Borrower intertwined civil relationship so that all legal consequences arising

¹⁵ Capital of the People, "Business Opportunities P2P Lending Indonesia", <https://www.modalrakyat.id/blog/pejuang-bisnis-p2p-lending-indonesia>, Accessed January 13, 2020 no.

¹⁶ Presentation HendrikusPassagi: "Fintech Indonesian Lending Fund of Mutual-Help Online", Seminar on BLC Fintech Day UGM, Yogyakarta 22 September 2018.

¹⁷ Davis and Murphy., Op.cit

¹⁸Duwitmu, "Investment Risks Fintech P2P Lending, <https://duwitmu.com/investasi/5-resiko-investasi-fintech-p2p-lending-indonesia/>, Accessed on January 13, 2020.

¹⁹ Operator Registration Form P2P Lending.

from the legal relationship between them is borne by both.

b. Risk Borrower

Behind easiness that given the Operator in terms of process and efficiency of time, there will still be a risk that will be felt by the Borrower. Borrower should always read the terms and conditions of the agreement were agreed upon. The borrower should apply for a loan on Lending P2P registered in order to avoid risks such as:

1. The risk of high interest

Lending via P2P Lending scheme are prone to when compared with the existing scheme in conventional banks. but for a given interest rates far above rata2 conventional bank interest. Not only the interest, the Borrower is also subject to fees and fines if mengalamketerlamabatan refund loans.

P2P Lending interest in generally higher as compared with the conventional banks. This is comparable with the ease of applying loan. Financial Services Authority does not specify the amount of interest on each Organizers yet Fintech Cofinancing Association of Indonesia (AFPI) has been set in the code of conduct AFPI that the total amount of borrowing costs do not exceed 0.8% flat rate per day. Also the provision that the total amount of fees, late fees, and all other costs up to 100% of the principal value of the loan. For example, A borrow 1 million, the maximum amount to be paid is 2 million.²⁰

2. Recognizing the ability to pay

Borrower shall determine the amount of loan needed and also the ability to pay on the loan before applying for loans. This is done on the basis of good faith. So it is not experiencing payment difficulties at the time of repayment.

3. Billing systems are less conducive

The billing system conducted by the Operator has now been carried conducive. FSA as a regulator now requires the Operator to collect responsibly. And against the Borrower of personal data that can be accessed by the Operator is now only limited emergency contact listed by the Borrower on the loan application form, location The borrower, a camera and microphone.²¹ P2P Lending now that has gained

tana registered and licensed from the FSA will no longer be able to access the gallery, text messages, and phone book of the Borrower.

Therefore, it becomes important to be known by the public, to be more cautious in making loans through P2P Lending scheme. Prospective Borrower must first know whether the Operator, who will be the intermediary media such loans have been registered and licensed from the FSA. This is to avoid behavioral elements such irresponsible fintech illegal and / or have not obtained the mark registered and licensed from the FSA.²²

4. Organizers risk

Organizers P2P Lending in operation shall comply with the legislation in force. FSA requires that the Operator has a good credit scoring in conducting the screening prospective borrower. Giving credit to the prospective borrower scoring will affect the rate of NPLs held by the Operator. The higher the number the more ugly NPL also the image of P2P Lending Operator before the FSA as regulator. P2P Lending organizers have an obligation to perform regular reporting to the FSA to oversee the business activities of P2P Lending prevent deviation from the regulations. FSA requires the Operator to have the credit scoring seminimalnya Appendix 3 POJK No. 77, 2016.

In addition, P2P Lending also have challenges in terms of increasing public confidence in the scheme of P2P Lending. It is a challenge for legal Organizers Organizers due to rampant illegal makes people lost confidence in the mechanisms of P2P Lending. Importance impulsively approach to the public in order to distinguish which organizers P2P Lending legal and illegal.

IV. CONCLUSION

P2P Lending presence in improving the economy in Indonesia open particularly funding for SMEs. This is supported with easy loan application process provided by the Operator are increasingly supporting the many people interested in opening a business via P2P Lending funding. In addition to funding, opportunities to invest also provided by P2P Lending to the Lender who want to invest at favorable rates. However, instead of applying the precautionary principle in determining the Operator

²⁰ FSA, FAQ Fintech Lending, <https://ojk.go.id/id/kanal/iknb/data-dan-statistik/direktori/fintech/Documents/FAQ%20Fintech%20Lending.pdf>, Accessed on January 13, 2020

²¹ BemhartFarras, "Stifling Neck, Flowers & Fine FIntech Lending Restricted", <https://www.cnbcindonesia.com/tech/20190307113504-37-59369/mencekik-leher-bunga-denda-fintech-lending-dibatasi>, Accessed on January 13, 2020.

²² Ranny, "The rise of Debt Collector Not Inhuman AFPI: It Fintech Illegal" <https://www.cnbcindonesia.com/tech/20181106182449-37-40903/marak-debt-collector-tak-manusiawi-afpi-itu-fintech-ilegal>, Accessed on January 13, 2020.

who want to be a media investment. And opening up opportunities to collaborate with government programs and conventional banks to increase financial inclusion.

Challenge :

1. Risk Lender

apply the precautionary principle in determining the Operator P2P Lending as a media investment. Figuring out the track record of the organizers of P2P Lending, and can distinguish between legal and illegal Operator.

2. Borrower risk. Before applying for the loan, the Borrower shall study and find out the background of the Operator which will serve as the media give him a loan. It is important to avoid billing inhumane by the Operator P2P Lending illegal. The borrower must know the amount of interest to be paid and the ability to pay on the loan.

3. Organizers risk. Have a good SOP and credit scoring excel in selecting candidates for the Borrower so as to mendefisitkan nonperforming loan figures on the application and / or website.

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