



The Entrepreneurs' Insights and Fears Towards Sharia Fintech Lending (Study of SMEs in West Sumatra)

Rayna Kartika^{1*} and Annisaa Rahman¹

¹Faculty of Economics and Business, Universitas Andalas, Indonesia
raynakartika@eb.unand.ac.id

Abstract. The innovation of financial technology (fintech), especially in peer-to-peer lending (P2PL), has reached significant users in the last couple of years. P2PL has been utilized worldwide, including in Indonesia, by means of investing and lending funds. By 2021, there will be more than 125 fintech peer-to-peer lending companies in Indonesia licensed by Financial Services Authorities (FSA) to serve financial issues of SME. 10 out of 125 peer-to-peer lending in Indonesia are sharia fintech lending which has been registered and licensed by FSA in June 2021. As the increase of P2PL has become more complex and advanced, there should be an empirical investigation of the entrepreneurs' intention to utilize sharia P2PL. Therefore, this research empirically tests how trust, the attitude of entrepreneurs, perceived ease, perceived risk, and perceived use affect the intention of entrepreneurs to use the Sharia P2PL platform in financing their business. The design of this research uses a quantitative approach where the data are obtained from questionnaire distribution. The data is analyzed using the Structural Equation Model (SEM) with intelligent PLS. From the distributed questionnaires, 100 SMEs participated in this research. The findings show that trust affects the intention of entrepreneurs to use Sharia P2PL, while perceived ease does not affect the intention of entrepreneurs to utilize Sharia P2PL. Interestingly, perceived use and attitude affect the intention of entrepreneurs to use Sharia P2PL, while the risk factor does not affect the intention of entrepreneurs to use Sharia P2PL.

Keywords: Sharia Peer-to-peer Lending, Financial Technology, Lending, Investing

1 Introduction

1.1 Background

Financing issues have been a significant problem for SMEs in Indonesia. Lack of capital, low level of financial literacy, and need for a standardized legal aspect of SMEs have been the case for most SMEs. Based on the data from the Indonesian Joint Funding Fintech Association (AFPI), 77.6% or 46.6 million SMEs need access to bank financing, which becomes an obstacle for SMEs to develop and expand. Thus, financial inclusion is needed to overcome this problem [1]. Financial technology bridges the financial system by delivering services, technologies, new forms of business, and services that will result in financial system stability, efficiency, security, monetary stability,

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reliability, and a smooth payment system. One of the alternative solutions offered is peer-to-peer lending. In the last couple of years, financing through peer-to-peer lending has been growing rapidly. P2PL is a method of financing capital to entities or business that needs funds or vice versa. This concept is similar to the marketplace system, where P2PL is a liaison between the seller and buyers. P2PL was officially supervised and regulated by FSA in 2016, and until 2021, there are already 125 P2PL fintech companies, and 10 of them are Sharia fintech. The lender's accounts in 2020 have reached 716,963, while the borrower's accounts are 43,561,362 in 2020.

As the population of Indonesia is mostly Moslem, Sharia P2PL exists to assist SMEs in financing issues. The system or contract used in sharia principles are *mudharabah* (profit sharing), *musharakah* (capital participation), *murabahah* (buying and selling), *ijarah* (pure lease without choice), *qardh*, *wakalah*, and *wakalah bil al-ujrah*. The Indonesia Sharia Fintech Association stated that all Sharia fintech lending had contributed Rp. 1 trillion in 2019, reaching Rp. 4 trillion in 2020. By 2021, there will be 10 Sharia fintech lending licensed and supervised by FSA. They are: 1). PT. Investree Radhika Jaya (Investree), 2). PT. Ammana Fintek Syariah (Ammana.id), 3). PT. Natural Islamic Fintech (Natural), 4). PT. Indonesian Sharia Fund (Sharia Fund), 5). PT. Duha Madani Syariah (Duha Syariah), 6). PT. Qazwa Mitra Hasanah (Qazwa), 7). PT. Ethics Fintek Indonesia (ETHIS), 8). PT. Kapital Boost Indonesia (KAPIT ALBOOST), 9). Pt. Perkasa Alphabet Tool (PAPITUPI Syariah), 10). PT. Sharia Fintek Blessing (Sharia Fintek).

Some research about P2PL and SMEs has been conducted in different regions of Indonesia. It is found that P2PL has made SMEs in Medan carry out financial transactions, including borrowing and lending transactions, payment issues, and others. Therefore, the existence of P2PL can assist SMEs to develop and expand their business. However, the research conducted by [2] argued that some SMEs still need better financial literacy about fintech. SMEs are currently more confident in dealing with banks or with their capital to finance their assets.

To know and understand the determinants that influence the intention of SMEs to utilize sharia P2PL, the researcher will use the theory of the Technology Acceptance Model (TAM) created by Davis et al. 1989. TAM is based on the Theory of Reasoned Action (TRA) proposed by Ajzen and Fishbein in 1980. TRA describes the reactions and perceptions of technology users that will affect their attitude toward the technology acceptance model. Trust has a significant effect on SMEs' intentions to use financial technology [3] [4]. Mostly, people who trust something will be more willing to conduct their actions. For example, in using Sharia P2PL for SMEs to cope with financing issues, SMEs are more likely to use it when they trust the Sharia P2PL platform, or they know the owner of Sharia P2PL.

Contrary to the research of [4] [5], they claim that trust has no significant effect on the intention of SMEs to utilize P2PL. This is due to financing issues with legal regulation depending on the necessities of the SMEs to utilize it. Since West Sumatra has potential SMEs to expand and develop, the authors are interested in researching the perception of entrepreneurs as the owners of SMEs to utilize Sharia P2PL.

Based on the description of the sharia P2PL and the intention of entrepreneurs to utilize it to solve financing issues, the main research question is to find out the extent of entrepreneurs' perception towards the intention of SMEs to utilize the sharia P2PL. The sub-points of the research questions are as follows:

1. How does trust affect the entrepreneurs' intention to utilize the Sharia P2PL platform to finance the SMEs?
2. How do perceived ease, perceived use, and perceived risk affect the entrepreneurs' intention to utilize the Sharia P2PL platform to finance SMEs?

3. How does attitude affect the entrepreneurs' intention to utilize the Sharia P2PL platform to finance the SMEs?

1.2 Hypothesis Development

Trust is an important aspect of conducting economic transactions because it directly relates to a person's behavior. Belief is related to an uncertain environment, for example, when using fintech. In carrying out any transaction, trust is needed because it is directly proportional to the level of satisfaction. Fintech users who feel satisfied with the services provided, then a level of trust will be high [6] [7] [8]. Trust also plays a significant effect on the use of fintech among the community [8]. Perceived ease can be defined as less effort of someone to do some actions. Related to sharia P2PL, when people do not require any endeavor to use the system or technology, it is easy to do. Therefore, in Sharia P2PL, when the platform technology is easy for the users, it will assist them in utilizing the Sharia P2PL platform. Perceived use arises when the use of Sharia P2PL is effective, fast, and easy so that the users intend to utilize Sharia P2PL. Perceived use affects users' intentions because they find the technology system useful for work and business. Risk in financing can be in the form of cyber and legal risks (Wildan, 2019). Therefore, the higher the risk, the less intention of users to utilize the Sharia P2PL platform. Attitude is a manifestation of both positive and negative traits that come from a person when using a new technology. When the user has a higher positive attitude towards the entrance of technology, the user will also have intentions to use the technology.

Based on this explanation, the hypotheses are:

H1: Trust affects the intention of SMEs to utilize sharia peer-to-peer lending

H2: Perceived ease affects the intention of SMEs to utilize Sharia peer-to-peer lending H3:

Perceived use affects the intention of SMEs to utilize Sharia peer-to-peer lending H4: Perceived risk affects the intention of SMEs to utilize Sharia peer-to-peer lending H5: Attitude affects the intention of SMEs to utilize sharia peer-to-peer lending

2 Methods

The design of this research is a quantitative approach. The data is collected through distributed questionnaires and shared with respondents. There are 100 respondents obtained from this research using convenience sampling in West Sumatra. The research questionnaires consist of three parts: they are:1) the identity of the respondents, 2). Source of financing, 3). The perception of SMEs on Sharia peer-to-peer lending. The questionnaires are designed to use a Likert scale of 1 to 5, where one indicates strongly disagree, two indicates disagree, three indicates neutral, four indicates agree, and five indicates strongly agree.

Some indicators of the constructs are as follows:

Table 1. List of indicators.

Constructs	Indicators	Number of Questions
Intention to utilize Sharia P2PL by SMEs	The intention of entrepreneurs to utilize ShariaP2PL	1

	Future use of sharia P2PL	2
Trust	Implementation of Sharia P2PL in accordance with Sharia	1
	Profit sharing based on Sharia contract	2
	The profit-sharing system is carried out fairly and transparent	3
	Reduce administrative cost	4
	No usury	5
	Sharia P2PL has been registered with FSA	6
Perceived ease	The mechanism of Sharia P2PL is easier compared to others	1
	Sharia P2PL is an alternative financing	2
	Sharia P2PL does not need collateral	3
	Sharia P2PL transactions are easy to understand	4
	Sharia P2PL transactions are flexible	5
Perceived use	Sharia P2PL is an effective and efficient capital	1
	Fast Sharia P2PL loan process	2
	The process of disbursing Sharia P2PL loans fast	3
	Sharia P2PL increases business productivity	4
	Sharia P2PL is beneficial for business development-menu	5
Risk	F S A regulations regulate Sharia P2PL, MUI and BI Fatwa	1
	Privacy and personal information are protected	2
	Security and financial information borrower	3
Attitude	Discipline to pay installment	1
	Paying fines when late	2
	Loan amount	3
	Advise other people to use Sharia P2PL	4

The data collection method in this research uses questionnaires and will be analyzed using SmartPLS 3.3.3. The reason why SmartPLS is chosen is because the large number of samples required is relatively small, does not require many assumptions and, can be used at all data scales, does not require data to be normally distributed.

3 Results and Discussions

The respondents of the research are SMEs in West Sumatra. Data is collected through questionnaires using convenience sampling. The distributed questionnaire which can be analyzed is 100. Based on the respondent profile, it is found that 60% of the respondents are domiciled in Padang, and 10% are from Limapuluh Kota. Most of the businesses of SMEs conducted are trading (83%), services (10%), and manufacturing (7%). In this study, it was found that 99

SMEs have never applied for an online sharia loan, and only 1% have made a sharia online. Some reasons the SMEs do not want to deal with online Sharia loans are a lack of knowledge and literacy about Sharia loans, the process of being time-consuming and complicated, the interest rate or margin being higher than conventional loans, and others.

Related to business capital, almost 84% of the SMEs use their fund as capital, 5% of the SMEs get capital from institutional loans such as banks, 1% of the SMEs obtain capital from cooperatives, and the other SMEs obtain capital from crowdfunding, grants, loans without interest, and joint ventures.

The validity test with the SmartPLS program is seen from the loading factor for each indicator. Factor loading is the initial stage in the validity test where the condition of the loading factor must be more than 0.7, and if it does not meet the condition, it can be said to be invalid, so the indicator must be clear.

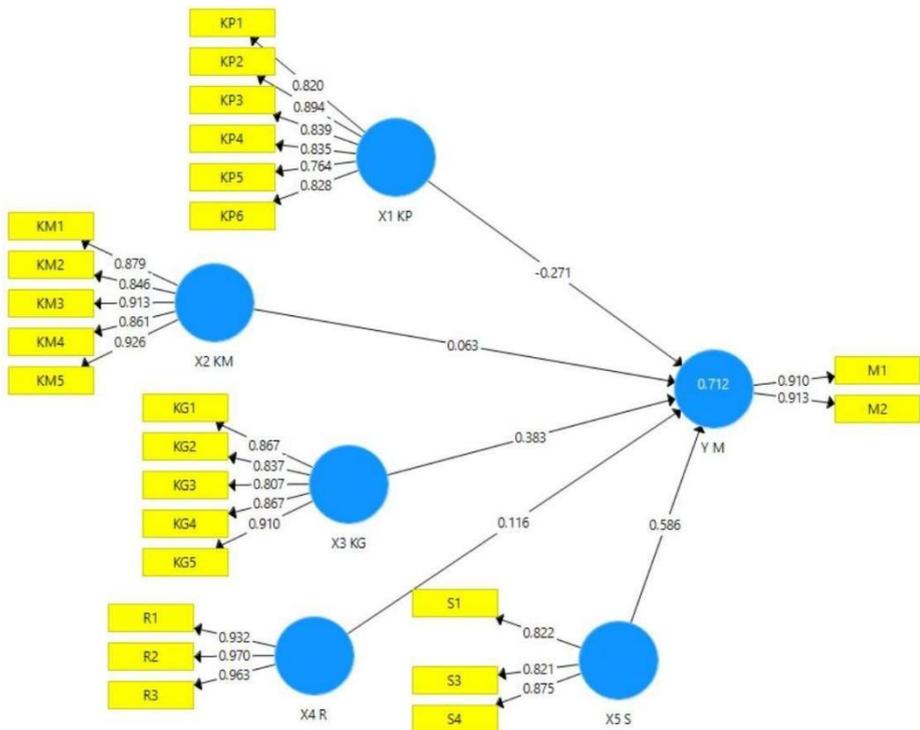


Fig. 1. Outer Model.

It can be seen clearly that the outer loading value of each variable indicator is greater than 0.7. so that the indicators tested in this study are valid. In addition, the validity test with Average Variance Extracted (AVE) has good convergent validity if the AVE value is greater than 0.5. The following is the AVE value:

Table 2. Average variance extracted.

Item	Average Variance Extracted (AVE)
Trust	0.690
Perceived Ease	0.784
Perceived Use	0.842
Risk	0.913
Attitude	0.764

The correlation value of the construct with the other constructs has discriminant validity. The measurement used in this study is the Fornell-Lesser Criterion. Discriminant validity testing can be carried out with the value of cross-loading. If the loading factor value on the construct is higher than the loading factor value on the other, it means that the discriminant validity is good. The testing of the discriminant validity also shows that the value is good.

The reliability test used in this research is composite reliability, in which the value must be greater than 0.7, and after conducting the test, the composite reliability is greater than 0.7.

The R square value for the intention of SMEs to utilize Sharia P2PL is 0.783, which means that 78% of the intention to utilize Sharia P2PL is defined by trust, perceived ease, perceived use, risk, and attitude. Other factors influence the other 22%.

The value of t count (3.265) > t table (1.96), then H1 is accepted, meaning that trust has a significant influence on the intention of SMEs to utilize sharia P2PL. The original sample value is -0.600, which means that the direction of the relationship between trust and the intention to utilize sharia P2PL is negative. The first hypothesis is accepted. This study supports the TAM Model that someone's intention to use technology is based on their trust. The higher their trust, the higher the intention to utilize the Sharia P2PL platform. Some researcher also finds the same result that trust plays an important role in someone's utilizing technology. This contrasts with the finding of [9] [10] [11], whose search claims that trust has no significant effect on the intention of SMEs to utilize sharia P2PL.

While the value of t-count (1.655) < t table (1.96), H2 is rejected, meaning that perceived ease has no significant effect on the intention of SMEs to utilize sharia P2PL. The original sample value is 0.139, which indicates that the direction between perceived ease and the intention of SMEs to use sharia P2PL is positive. The second hypothesis, perceived use, does not affect the intention of SMEs to utilize sharia P2PL. Since the second hypothesis is rejected, it is clearly stated that technology implementation can be learned from many sources. Therefore, perceived ease of technology will not be an important factor in assisting SMEs to utilize the Sharia P2PL platform. The other reason is that society's literacy of technology implementation has already met the standard. Thus, perceived ease does not influence the intention of SMEs to utilize Sharia P2PL.

The value of t-count (4.442) > t table (1.96), then H3 is accepted, meaning that perceived use has a significant effect on the intention of SMEs to utilize sharia P2PL. The value of the original sample is 0.559, which indicates that the direction of the relationship between perceived use and the intention of SMEs to utilize sharia P2PL is positive. The third hypothesis is accepted because the t-count value of 4.42 is greater than 1.96. It indicates a positive influence that has a significant effect on perceived use towards the intention of SMEs to utilize the Sharia P2PL platform. The result also supports the TAM model, which states that someone's intention to use technology is driven by usability. The result is also in line with [12] [13].

The value of t-count (1.674) < t table (1.96), then H4 is rejected, meaning that the risk has no significant effect on the intention of SMEs to utilize sharia P2PL. The original sample value is 0.189, which indicates that the direction of the relationship

between risk and the intention to utilize sharia P2PL is positive. The fourth hypothesis is rejected since there is no effect of risk towards the intention to utilize Sharia P2PL. The reason why risk does not affect the intention to utilize Sharia P2PL is that technology has always had risks. The more sophisticated the technology, the higher the risk is. Thus, risk eventually does not affect the intention of SMEs to utilize Sharia P2PL.

The value of t-count (6.965) < t table (1.96), then H5 is accepted, meaning that attitude has a significant effect on the intention of SMEs to utilize sharia P2PL. The value of the original sample is 0.637, which means the direction of the relationship between attitude and the intention of SMEs to utilize sharia P2PL is positive. The fifth hypothesis is accepted. The result of this study indicates that user attitudes strongly influence the user's intention to utilize the sharia P2PL. So, the better the attitude towards the use of Sharia P2PL, the higher the intention to utilize Sharia P2PL. This finding is also in line with [4] [14] [15] [16]. Who states that the attitude has a positive effect on the intention to utilize Sharia P2PL.

4 Conclusions

The research aims to test empirically the determinants of the intention of SMEs to utilize sharia P2PL. It is concluded that the determinants are trust, perceived ease, perceived use, risk, and attitude. From 100 respondents who filled out the questionnaires, it was found that trust, perceived use, and attitude have an effect on the intention of SMEs to utilize sharia P2PL, while perceived ease and risk do not have effects on the intention to utilize sharia P2PL.

For future research agenda, the research about Sharia fintech lending, particularly in west Sumatera, has become preferred by the society since west Sumatera people are almost 90% Moslem. Therefore, the research must focus deeply, especially on adding the samples and the constructs. Society also needs to be informed about Sharia P2PL and the difference between Sharia P2PL and conventional P2PL.

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