

FINANCIAL TECHNOLOGY INNOVATION: ANALYSIS OF PEER-TO-PEER (P2P) LENDING IN INDONESIA

Ahmad Sabbi¹, Bayu Fajar Susanto²

^{1,2}Management Study Program, Faculty of Economics and Business, Universitas Islam Indragiri, Indonesia

*e-mail: ahmadsabbi456@gmail.com

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Abstract

This study aims to analyze Peer-to-Peer (P2P) Lending as an innovation in financial technology in Indonesia. P2P Lending connects lenders and borrowers directly through digital platforms, thereby providing broader access for individuals and Micro, Small, and Medium Enterprises (MSMEs) that often struggle to obtain financing from traditional financial institutions. In this context, the study employs a descriptive quantitative approach using content analysis, gathering data from various relevant online sources, including official reports and academic articles. The findings indicate that P2P Lending offers several benefits, such as competitive interest rates, faster application processes, and diversified investment options for lenders. However, the industry also faces several challenges, including high credit risk and an underdeveloped regulatory framework. Credit risk is a primary concern, as the possibility of borrowers defaulting on loans can lead to significant losses for lenders. Additionally, existing regulations need to be strengthened to protect all parties involved and to ensure transparent practices. The conclusions of the study emphasize the importance of a comprehensive understanding of P2P Lending, including its working mechanisms and the challenges it faces, to maximize its benefits and mitigate existing risks. These findings are expected to serve as a reference for P2P Lending platform developers, regulators, and other stakeholders in creating a more inclusive and sustainable financial ecosystem in Indonesia.

1. INTRODUCTION

Background Problem

In today's digital era, innovations in financial technology (fintech) have transformed the way people access financial services. One such innovation that is rapidly growing in Indonesia is Peer-to-Peer (P2P) Lending. P2P lending allows individuals or Micro, Small, and Medium Enterprises (MSMEs) to borrow and provide loans directly through online platforms, bypassing the need for traditional financial institutions (Financial Services Authority [OJK], 2023).

Most MSMEs in Indonesia face difficulties accessing capital loans from formal financial institutions. According to the Financial Services Authority (OJK) (2023), approximately 70% of MSMEs in Indonesia lack access to formal financing. This is due to various factors, including strict regulations, complex requirements, and high levels of bureaucracy in the loan application process (Johnson, 2022). Many businesses are not yet bankable or do not meet banking standards, making it difficult for them to obtain capital to expand their businesses.

P2P lending has emerged as a solution to expand financial access, especially for those who have been marginalized from the formal financial system. By utilizing digital platforms, P2P lending offers convenience, accessibility, and a faster loan process, particularly for MSMEs (Lee, 2023). Furthermore, P2P lending also provides lenders with opportunities to invest and earn competitive returns (Smith, 2023).

While P2P lending offers numerous benefits, the industry also faces a number of challenges and risks, such as credit risk, immature regulations, and data security issues (Brown, 2023). According to research by Davis (2022), credit risk is a key issue for lenders, as the potential for borrowers to default on their loans can result in losses. Therefore, it is important to understand the working mechanisms, advantages, and disadvantages of P2P lending so that users can utilize it optimally.

Problem Formulation

Based on the background that has been described, the problems in this research are formulated as follows:

- a. What is meant by P2P Lending?
- b. What are the benefits offered by P2P Lending?
- c. What are the advantages and disadvantages of P2P Lending?
- d. How does P2P Lending work?
- e. What applications are included in the P2P Lending category in Indonesia?

Research Purposes

The purpose of this research is to:

- a. Explaining the definition of P2P Lending and its basic concepts.
- b. Identify the benefits offered by P2P Lending for borrowers and lenders.
- c. Analyze the advantages and disadvantages associated with the use of P2P Lending.
- d. Describes the process or how P2P Lending works in practice.
- e. Identifying popular P2P Lending applications in Indonesia and the features they offer.

2. LITERATURE REVIEW

Definition and Concept of P2P Lending

Peer-to-Peer (P2P) lending is an innovation in the lending system that utilizes digital technology to directly connect lenders and borrowers without the intermediary of traditional financial institutions. In this context, the Financial Services Authority (OJK, 2023) defines P2P lending as a money lending service that utilizes information technology to increase financial accessibility.

P2P lending has become a solution for many individuals and MSMEs who struggle to access formal financing. According to Smith (2023), P2P lending provides borrowers with the opportunity to avoid complicated bureaucratic processes and accelerate access to capital. This is crucial considering that approximately 70% of MSMEs in Indonesia lack access to formal financing (OJK, 2023).

Benefits of P2P Lending

Several studies have shown that P2P lending offers various benefits for both borrowers and lenders. Johnson (2022) noted that P2P lending not only speeds up the loan application process but also offers more competitive interest rates. Furthermore, lenders earn higher returns compared to traditional investments, making P2P lending an attractive investment alternative (Lee, 2023).

Advantages and Disadvantages of P2P Lending

The advantages of P2P lending include easier access and the ability to diversify investment portfolios (Brown, 2023). However, the industry also faces challenges, including credit risk, where borrowers may default on their loans (Davis, 2022). According to research by Brown (2023), a good understanding of these risks is crucial for lenders to avoid losses.

P2P Lending Process and How it Works

P2P lending involves several steps, from registration to disbursement of funds. Lee (2023) explains that P2P lending platforms typically conduct a creditworthiness analysis before approving a loan application, which is essential to ensure that borrowers have the ability to repay their loans.

P2P Lending Applications in Indonesia

In Indonesia, several popular P2P lending platforms include Amartha, Akseleran, and Modalku. Each platform offers different features and services, but all aim to improve financial access for MSMEs (Putri, Wiryono, & Nainggolan, 2022). Research shows that the existence of these platforms has helped many MSMEs obtain the financing they need to grow (Fintechnews.id, 2025).

P2P Lending Regulations

P2P lending regulations in Indonesia are regulated by the Financial Services Authority (OJK) to ensure transparent and safe practices. The OJK (2023) established guidelines that P2P lending platforms must follow, including the obligation to provide clear information about risks and fees to users. This aims to protect consumers and encourage healthy industry growth.

3. RESEARCH METHODS

Types of research

This research uses a descriptive quantitative approach with content analysis methods. This approach was chosen to collect and analyze online data regarding P2P lending in Indonesia, with the aim of providing readers with clear and comprehensive information on this topic.

Data source

The data used in this study is secondary data obtained from various online sources, including:

- a. News Articles and Media Publications: Various articles discussing P2P Lending and its impact on MSMEs in Indonesia.
- b. Official Report: Reports from the Financial Services Authority (OJK) and other related institutions that present data and analysis regarding P2P Lending.
- c. Scientific Journal: Articles from relevant journals that discuss the definition, benefits, advantages, and challenges in P2P Lending.
- d. P2P Lending Platform Website: Information provided by P2P Lending platforms in Indonesia, to understand the features and services they offer.

Data Collection Techniques

Data collection is done through:

- a. Systematic Search: Using search engines and academic databases to find relevant articles, reports, and information with keywords such as "P2P Lending Indonesia", "Benefits of P2P Lending", and "P2P Lending Regulation".
- b. Data Selection: Filtering information based on established inclusion and exclusion criteria. Inclusion criteria include relevance to the research problem formulation and objectives, while exclusion criteria include unreliable or outdated data.
- c. Data Collection from Official Sources: Accessing the OJK website and P2P Lending platforms to collect the latest data and statistics.

Analysis Data

The data obtained will be analyzed using quantitative content analysis methods. This analysis process includes:

- a. Variable Identification: Determine variables that are relevant to the formulation of the problem that has been determined, such as the definition of P2P Lending, benefits, advantages, disadvantages, and applications in Indonesia.
- b. Data Coding: Coding information based on predetermined variables, to facilitate analysis.
- c. Descriptive Statistical Analysis: Using descriptive statistics to describe data characteristics and identify significant trends in P2P Lending.

4. RESULTS AND DISCUSSION

Results

The results of this study were obtained from an analysis of various online information sources regarding P2P lending in Indonesia. The following key findings were identified:

Definition of P2P Lending

P2P lending, or person-to-person lending and borrowing, is defined as a system that allows lenders and borrowers to transact directly through a digital platform (OJK, 2023). This model eliminates the need for traditional financial institutions as intermediaries, thus facilitating financial access for individuals and MSMEs.

Benefits of P2P Lending

- a. Improved Accessibility: P2P lending offers a solution for MSMEs struggling to obtain bank loans, with a faster and less bureaucratic process (Smith, 2023). This is crucial, given that approximately 70% of MSMEs in Indonesia lack access to formal financing (OJK, 2023).
- b. Competitive Interest Rates: Research shows that interest rates offered in P2P lending are often lower than traditional loans. Johnson (2022) notes that this not only benefits borrowers but also appeals to lenders seeking higher returns compared to savings or bank deposits.
- c. Investment Diversification: Lenders can diversify their portfolios by lending money to a variety of borrowers, reducing the risks associated with a single investment (Brown, 2023).

Advantages and Disadvantages

Advantages:

In addition to easy access and competitive interest rates, P2P Lending also allows lenders to be directly involved in the investment process, giving them greater control over their investment decisions (Lee, 2023).

Disadvantages:

However, credit risk remains a major issue. Davis (2022) points out that default rates in P2P lending can vary, and unbankable borrowers can potentially cause losses for lenders. Furthermore, the lack of strict regulation can increase the risk of fraud and data security.

P2P Lending Work Process

The P2P Lending work process generally includes several steps:

- a. Registration: Both borrowers and lenders must register on the P2P Lending platform.
- b. Credit Eligibility Analysis: The platform performs a risk analysis to assess the borrower's eligibility before approving the loan application (Lee, 2023).
- c. Disbursement of Funds: Once approved, funds will be disbursed to the borrower, and the lender will receive repayment in the form of installments.

P2P Lending Applications in Indonesia

Some popular platforms in Indonesia include Amarta, Akseleran, and Modalku. Each platform has unique features:

- a. Amarta: Focuses on providing loans to MSMEs in rural areas, with a strong social approach.
- b. Akseleran: Offers project-based loans and has a rating system for borrowers.
- c. Modalku: Provides a variety of loan products that can be tailored to the needs of borrowers, as well as offering competitive returns for lenders (Putri, Wiryono, & Nainggolan, 2022).

P2P Lending Regulations

P2P lending in Indonesia is regulated by the Financial Services Authority (OJK), which establishes guidelines to protect consumers and ensure transparency in the lending process. These regulations include an obligation for platforms to provide information about risks and fees to users (OJK, 2023). Despite these regulations, challenges remain, particularly in terms of oversight and law enforcement.

Discussion

The results of this study indicate that P2P lending is a significant innovation in Indonesia's financing system. With many MSMEs lacking access to formal financial institutions, P2P lending presents an attractive alternative. Improved accessibility and competitive interest rates provide opportunities for MSMEs to get the capital they need to grow.

One key point highlighted in this study is the success of P2P lending in expanding financial inclusion. P2P lending platforms not only provide financial access but also empower borrowers by providing information and education on financial management. This can improve their ability to manage loans and reduce the risk of default.

However, despite all the benefits, credit risk remains a major concern. Lenders must conduct adequate due diligence before investing. This highlights the need for stricter regulations and effective oversight mechanisms to protect all parties involved. In this context, collaboration between the government, P2P lending platforms, and other financial institutions is crucial to creating a safe and sustainable ecosystem.

In the case of P2P lending applications, the diverse features offered by each platform demonstrate that this market still has room for growth. Each platform can tailor its services to the specific needs of borrowers and lenders, which can increase competitiveness and attract more users.

Overall, P2P lending has the potential to positively impact the Indonesian economy, particularly in supporting MSMEs. However, to achieve this potential, it is crucial to continue raising awareness, understanding the risks, and promoting regulations that support healthy and sustainable industry growth. With the right approach and strategy, P2P lending can become a crucial pillar of Indonesia's inclusive financial ecosystem.

5. CONCLUSION

This study has examined Peer-to-Peer (P2P) Lending as an innovation in Indonesia's financing system in depth, focusing on accessibility, benefits, advantages, disadvantages, and available applications. Based on the analysis, several conclusions can be drawn:

- a. A Key Innovation: P2P Lending is an innovative solution that helps improve financial access for individuals and Micro, Small, and Medium Enterprises (MSMEs) that have been marginalized from the formal financial

system. By eliminating intermediaries, P2P Lending offers a faster and more efficient process for obtaining capital.

- b. Significant Benefits: P2P lending offers a variety of benefits, including more competitive interest rates and a simpler application process. This makes it an attractive option for borrowers seeking a more flexible and efficient financing solution.
- c. Risks to Manage: While P2P lending offers many advantages, it also faces risks, particularly credit risk. Lenders need to conduct careful analysis and understand the risks involved to avoid losses. Furthermore, the need for stricter regulations to protect all parties involved is crucial.
- d. The Role of Regulation: Regulations implemented by the Financial Services Authority (OJK) play a crucial role in ensuring transparent and safe practices in the P2P lending industry. Despite the existing regulatory framework, challenges in oversight and enforcement remain. Collaboration between regulators, P2P lending platforms, and financial institutions is essential to creating a healthy ecosystem.
- e. Growth Potential: With a diverse range of P2P lending platforms, such as Amartha, Akseleran, and Modalku, this market shows significant growth potential. Each platform offers unique features that meet the specific needs of borrowers and lenders, increasing competitiveness and attracting more users.

6. SUGGESTION

Based on the research results on P2P Lending in Indonesia, several suggestions can be given to improve the effectiveness and sustainability of this industry:

- a. Increased Education and Awareness: It's crucial for all stakeholders, including borrowers and lenders, to be educated about P2P lending mechanisms, their benefits, and the risks involved. P2P lending platforms can hold seminars, webinars, or provide educational materials on their websites to increase user understanding.
- b. Developing Stronger Regulations: The Financial Services Authority (OJK) is advised to continue developing more comprehensive and adaptive regulations to technological developments and market dynamics. Strict regulations will help protect consumers and increase trust in the P2P lending industry.
- c. Inter-Stakeholder Collaboration: Closer collaboration is needed between P2P lending platforms, financial institutions, and the government to create a mutually supportive ecosystem. This collaboration could include data sharing, product development, or joint initiatives to increase financial inclusion.
- d. Technological Innovation: P2P lending platforms need to continuously innovate in the technology they use to improve user experience, process efficiency, and data security. The use of artificial intelligence (AI) for risk analysis and portfolio management can help mitigate credit risk and increase returns for lenders.
- e. Effective Oversight and Law Enforcement: Strengthening oversight of business practices in the P2P lending industry is crucial to prevent fraud and protect consumers. The Financial Services Authority (OJK) and related institutions must impose strict sanctions for regulatory violations to ensure market compliance and integrity.
- f. Product and Service Diversification: P2P lending platforms are encouraged to offer a wider range of products and services, including project-based loans, loans for specific sectors, or other financial products tailored to market needs. This diversification can attract more users and increase competitiveness.

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