

ANALYSIS OF FINTECH PEER-TO-PEER (P2P) LENDING APPLICATIONS IN IMPROVING FINANCING ACCESS FOR MSMEs IN INDONESIA

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Article Info

Article history:

Received 08 03, 2024

Revisi 08 26, 2024

Received 09 28, 2024

Keywords:

P2P Lending

Financial Inclusion

SMEs

Financial Technology

Risks and Benefits

Abstract

This study aims to analyze the role of peer-to-peer (P2P) lending fintech applications in improving access to financing for Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. Using qualitative methods, this study explores several leading fintech applications, including Modalku, Kredivo, Akseleran, and ALAMI Funding Syariah. The results show that these applications provide fast, easy, and transparent financing alternatives for MSMEs that often experience difficulties in obtaining capital from traditional financial institutions. Furthermore, this study identifies differences in business models, market segments, and the benefits and risks faced by users and investors. These findings are expected to provide insights for stakeholders, including the government, industry players, and the public, in efforts to increase financial inclusion in Indonesia. With a better understanding of P2P lending applications, it is hoped that a more inclusive and sustainable financial ecosystem can be created, contributing to national economic growth.

1. INTRODUCTION

Background Problem

The rapid development of digital technology has brought significant changes to various aspects of life, including the financial sector. In the midst of the Industrial Revolution 4.0, innovations in financial technology (fintech) have emerged as a solution to meet the ever-growing needs of society. One of the most attractive fintech models is peer-to-peer (P2P) lending, which allows lenders (investors) to directly connect with borrowers (borrowers) through a digital platform. This model not only simplifies the lending and borrowing process but also offers a more inclusive alternative for those who have been marginalized from traditional financial access, as explained by Arner, Barberis, and Buckley (2015) [1].

In Indonesia, financial markets continue to face various challenges, particularly for Micro, Small, and Medium Enterprises (MSMEs). According to the Financial Services Authority (OJK, 2022), approximately 60% of MSMEs in Indonesia experience difficulties accessing bank financing [2]. This is due to various factors, including limited collateral, poor credit history, and complicated bureaucratic processes. In this context, P2P lending offers a faster and more transparent alternative solution, enabling MSMEs to obtain the working capital necessary for their business growth and development.

One of the well-known P2P lending platforms in Indonesia is Modalku, which has been operating since 2016. Modalku provides easier access to funding for MSMEs, as well as offering protected funding products with insurance support, providing a sense of security for investors, as expressed by Modalku (2023) [3]. Besides Modalku, there are also other platforms such as Kredivo, Akseleran, and ALAMI Funding Syariah, each with different business models and market segments. Kredivo, for example, focuses more on services Paylater and cash loans for individual consumers, while Akseleran and ALAMI target MSMEs with different approaches, namely conventional and sharia.

However, while P2P lending offers various advantages, there are also risks that need to be considered. The risk of borrower default, data security, and potential fraud are major concerns for investors, as explained by Hasan and Moudud-UI-Huq (2020) [4]. Therefore, a deep understanding of the benefits and risks of using P2P lending is very important to improve public financial literacy.

In this context, this study aims to analyze the role of P2P lending fintech applications in increasing access to financing for MSMEs in Indonesia. This research will also explore the business models implemented by each application, as well as the benefits and risks faced by users and investors. It is hoped that the results of this study will provide broader insights for stakeholders, including the government, industry players, and the public, in efforts to increase financial inclusion in Indonesia.

With a better understanding of the dynamics of the P2P lending fintech industry, it is hoped that a more inclusive and sustainable financial ecosystem can be created, which in turn can drive overall national economic growth.

Problem Formulation

- a. What types of peer-to-peer (P2P) lending fintech applications are available in Indonesia and how do they operate to increase access to financing for MSMEs?
- b. What business models are implemented by various P2P lending applications in the context of the MSME market in Indonesia?
- c. What are the benefits and risks faced by MSMEs and investors in using P2P lending as a source of financing?
- d. How does P2P lending impact financial inclusion and local economic empowerment in Indonesia?
- e. What are the challenges faced by the P2P lending industry in Indonesia in maintaining sustainability and growth?

Research Purposes

- a. To identify the types of P2P lending fintech applications available in Indonesia and analyze how they improve access to financing for MSMEs.
- b. To analyze the business model implemented by P2P lending applications in the context of the MSME market.

- c. To evaluate the benefits and risks faced by MSME users and investors when using P2P lending.
- d. To assess the impact of P2P lending on financial inclusion and local economic empowerment in Indonesia.
- e. To identify the challenges faced by the P2P lending industry and provide recommendations to improve its sustainability and growth.

2. LITERATURE REVIEW

Definition and Development of Fintech

Fintech, or financial technology, is an innovation that combines technology with financial services to improve efficiency and accessibility. According to Arner et al. (2015) [1], fintech encompasses a wide range of services, from digital payments to automated investments. Fintech growth in Indonesia, particularly peer-to-peer lending, has been rapid in recent years, providing an alternative for MSMEs struggling to obtain capital from traditional financial institutions.

Peer-to-Peer Lending

P2P lending is a fintech model that connects lenders (investors) with borrowers (borrowers) through a digital platform. This platform acts as an intermediary, managing financial transactions and conducting credit risk analysis. According to F. A. M. M. M. A. (2020) [2], P2P lending offers more inclusive and faster financial access for those who do not meet conventional lending criteria.

Business Models in P2P Lending

P2P lending business models vary, from transaction fees and loan interest to investment returns. Research by Hasan and Moudud-Ul-Huq (2020) [3] shows that this model allows risk diversification for investors and provides more flexible financing opportunities for borrowers.

Benefits and Risks of P2P Lending

P2P lending not only benefits borrowers but also offers an attractive investment alternative for lenders. However, risks such as default and data security remain issues that require attention. According to the Financial Services Authority (OJK) (2022) [4], regulation is needed to protect consumers and maintain a healthy fintech ecosystem.

Disruptive Innovation Theory

The theory of disruptive innovation proposed by Clayton Christensen explains how innovation can transform existing markets by offering better and cheaper products or services [5]. In the context of P2P lending, this innovation occurs when digital platforms eliminate traditional intermediaries, enabling easier access for borrowers and providing investment alternatives for lenders.

Technology Adoption Theory

Technology adoption theories, such as the Technology Acceptance Model (TAM) and the Unified Theory of Acceptance and Use of Technology (UTAUT), explain the factors that influence user acceptance of new technologies. Factors such as ease of use, perceived usefulness, and trust in the technology are crucial in influencing the decision to use P2P lending [6].

Financial Inclusion Theory

Financial inclusion refers to adequate access to financial services for all levels of society, especially the marginalized. This theory emphasizes the importance of accessibility, sustainability, and affordability of financial services in empowering individuals and MSMEs [7]. P2P lending has the potential to increase financial inclusion by providing more flexible and faster financing alternatives.

3. RESEARCH METHODS

Literature Study

A literature study was conducted to gather information from various relevant sources regarding fintech, particularly peer-to-peer (P2P) lending in Indonesia. The sources used included journal articles, books, industry reports, and regulatory documents. This approach aims to comprehensively understand the types of fintech, P2P lending business models, and their impact on access to financing for Micro, Small, and Medium Enterprises (MSMEs).

Secondary Data Analysis

Secondary data analysis was conducted using data published by reputable institutions, such as the Financial Services Authority (OJK), Bank Indonesia, and other research institutions. The collected data includes statistics on P2P lending service usage, user demographics, and industry development trends. This approach provides a solid foundation for analyzing the challenges facing the P2P lending industry in Indonesia and its impact on financial inclusion.

Descriptive Analysis

Following data collection, a descriptive analysis was conducted to illustrate the findings and provide a better understanding of the P2P lending phenomenon. This analysis included a systematic presentation of information and an analysis of trends and patterns emerging from the collected data. In this way, the research provides a clear picture of the impact of P2P lending on access to financing for MSMEs and the challenges faced by the fintech industry in Indonesia.

4. RESULTS AND DISCUSSION

RESULTS

1. General Profile of P2P Lending in Indonesia

P2P lending in Indonesia has grown rapidly with the emergence of various platforms offering this service [1][2]. As of October 9, 2023, there were 101 P2P lending platforms registered and licensed with the Financial Services Authority (OJK) [3]. This number is down from the 157 registered providers in 2020 [3], indicating consolidation in the industry due to increased minimum capital requirements and stricter oversight [4].

2. Use of P2P Lending by MSMEs

P2P lending platforms are often a solution for Micro, Small, and Medium Enterprises (MSMEs) that have difficulty accessing financing from traditional financial institutions [2][5]. On average, MSMEs use P2P lending for working capital, business expansion, and investment in fixed assets [2][5]. Data shows that around 60% of MSMEs that utilize P2P lending report that the loan application process is faster than through banks [5].

3. Impact of P2P Lending on Access to Financing

P2P lending has been shown to increase access to financing for MSMEs, especially those without strong collateral [2][5]. Many MSMEs that previously did not receive financing from banks can now access capital through this platform [2][5]. This contributes to the growth and sustainability of their businesses, as well as creating new jobs [5].

4. Benefits and Challenges of P2P Lending

Some of the main benefits of P2P lending include faster processing speed and more flexible terms [2][5]. The fast disbursement process, often within 3-5 days, is a major draw for users [5]. However, challenges include relatively high interest rates, which some MSMEs consider higher than bank loans [5], as well as the risk of default, which can affect the platform's reputation and investor confidence [6][7].

5. The Role of P2P Lending in Financial Inclusion

P2P lending plays a significant role in increasing financial inclusion in Indonesia [5][8]. By providing access to previously underserved MSMEs, these platforms help empower local economies [2][5]. P2P lending offers opportunities for MSMEs to grow and contribute to the national economy [5].

DISCUSSION

The analysis results show that P2P lending can be a solution to the challenges of access to financing in Indonesia [5][8]. With the convenience and speed it offers, P2P lending can help marginalized MSMEs access capital [2][5]. However, challenges such as the risk of default and high interest rates must be managed properly [6][7].

Strong regulation and transparency in P2P lending operations are crucial to building trust among borrowers and investors [9][10]. The Financial Services Authority (OJK) has issued new regulations to maintain the industry's sustainability, including limiting daily interest rates on online loans and requiring providers to provide risk insurance [4][10]. Furthermore, the OJK has imposed administrative sanctions on a number of financing companies and fintech lenders that violate applicable regulations [10]. With the right approach, P2P lending can contribute significantly to economic growth and financial inclusion in Indonesia [5][8].

5. CONCLUSION

P2P lending in Indonesia has shown significant growth as an alternative solution for Micro, Small, and Medium Enterprises (MSMEs) in accessing financing. With its easy and fast application process, P2P lending can bridge the financial access gap often faced by MSMEs. However, challenges such as the risk of default and high interest rates remain a concern. Strict regulations from the Financial Services Authority (OJK) also play a crucial role in maintaining the sustainability and trust in this industry.

6. SUGGESTION

- a. Improving Financial Education and Literacy: Greater efforts are needed to improve MSMEs' understanding of P2P lending, including how it works, its benefits, and the associated risks. Educational programs can help them make better decisions.
- b. Flexible Regulatory Development: The OJK needs to continuously monitor and adjust regulations to support the growth of the P2P lending industry without neglecting consumer protection aspects.
- c. Product and Service Innovation: P2P lending platforms are advised to continue innovating in the products and services they offer, including providing sharia-based financing or products that better suit the needs of MSMEs.
- d. Collaboration with Traditional Financial Institutions: Encouraging collaboration between P2P lending platforms and banks or other financial institutions can create a more inclusive financial ecosystem, which in turn will increase accessibility for MSMEs.
- e. Periodic Monitoring and Evaluation: Periodic monitoring and evaluation of P2P lending performance and its impact on the economy, especially in terms of its contribution to MSME growth and job creation, is required.

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