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## LEGAL PROTECTION FOR DEBTORS OF ONLINE LOANS

**Dimas Pramodya Dwipayana**  
Universitas PGRI Madiun  
dimpram89@gmail.com

### Abstract

*Business concepts has experienced change from conventional (offline) to that which is digital (online) to win the market. This includes businesses in the financial technology (FinTech). This research aims to analyze the quality of loans in Indonesia FinTech-Peer to Peer (P2P) Lending. The objects of this research are seventy-two companies which establish FinTech-P2P lending. The tool used in this research is the analysis of the loan quality and the data trend from January until October 2018. Results of this research show that borrower and lender accounts have increased by 10,8 times, and it has increased by 1,8 times compared to the previous year. P2P lending has distributed loans as much as Rp.15.990.143.141.355 until October 2018. This number has grown 5,3 times since January of that year. Most of the loans in the P2P lending are current loans, in which its monthly payment is less than 30 days past due as of any date of determination. On average, the loan quality in the P2P lending is dominated by current loans, which reach 97,09%. The rest are non-current loans (1,90%) and bad loans (1,03%) every month. The low rate of non-performing loans shows a good quality of financial transaction. The information from this research may be used as a consideration for the society in using FinTech-P2P Lending for lending funds and investment.*

**Keywords :** *Financial Technology, P2P Lending, Loan Quality in Indonesia*

### A. INTRODUCTION

Currently, the industrial era 4.0 still goes on in the various aspects of life, including the business sector. The business actors respond quickly by competing in making changes of business concepts from that which is conventional (offline) to that which is digital (online) to face the ever-tightening business competition.<sup>1</sup> The business environment in the digital era is currently facing a turbulent situation, which is marked by the increasing business competition. Inna and Marina explain that the

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<sup>1</sup> Setiawan, S. D. "Analisis transformasi kapabilitas penyedia layanan broadband perusahaan telekomunikasi Indonesia." *Jurnal Manajemen Teknologi*, Vol 17(2), 76-94. 2018

digital era is a challenge which must be transformed into an opportunity as it gives more flexibility and functionality in some aspects.<sup>2</sup>

The financial sector becomes one of the business sectors which faced significant changes. It is known by the term Financial Technology (FinTech). It comes to solve problems regarding the financial access of the people towards conventional financial institutions. Formerly, it is difficult to correspond to conventional financial institutions (banks). It is complex and it takes much time. Because of that, FinTech offers ease and speed in its financial transaction processes to the people, especially that regarding fund loans.<sup>3</sup>

FinTech is a digital technology application which is used to give solution to the people's financial problems. It is an innovation of digital technology for financial service, which produces processes or products related to the provision of financial services.<sup>4</sup>

FinTech is a type of business which focuses on the use of technology as the main tool is to obtain income through financial services to customers (Wilson, 2017). It is able to increase financial efficiency with low price.<sup>5</sup> One of the FinTech types which recently operates in Indonesia is Peer to Peer Lending (P2P lending). P2P lending was firstly introduced by Zopa in England on 2005. It becomes a facility of investment and fund loan to the society.<sup>6</sup>

Because of that, P2P lending becomes a very practical alternative of investment and source of funding for the people. There is a good promise of return for lenders who invest in the P2P lending. Even so, there is a risk which must be borne if there is a payment problem from the borrower.<sup>7</sup> Meanwhile, the lender may obtain a higher

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<sup>2</sup> Inna, R., & Marina, K. *Banking and fintech: a challenge or opportunity (Contemporary Studies in Economic and Financial Analysis)*. Volume 98. Emerald Group Publishing Limited, Singapore, 2016, Hlm.21 – 35

<sup>3</sup> Saksonova & Merlino, "Fintech as financial innovation – the possibilities and problems of implementation". *European Research Studies Journal*, XX (3A), 2017, hlm. 961-973.

<sup>4</sup> Diakses dari Financial Stability Board, "FinTech credit : Market structure, business models and financial stability implications" . May 2017. <http://www.fsb.org/wp-content/uploads/CGFS-FSB-Report-on-FinTech-Credit>. Diakses pada 30 Maret 2020

<sup>5</sup> Anikina, I.D., Gukova, V.A., Golodova, A.A. & Chekalkina, A. A. "Methodological Aspects of Prioritization of Financial Tools for Stimulation of Innovative Activities". *European Research Studies Journal*, 19(2), 2016, hlm. 100-112.

<sup>6</sup> Atz, U., dan Bholat, D. "Peer-to-Peer lending and financial innovation in the United Kingdom". *World Bank Working Paper*. Staff Working Paper No. 598. April 2016

<sup>7</sup> Magee, J. "Peer-to-peer lending in the United States: surviving after Dodd-Frank". *North Carolina Banking Institute Journal*, (2011). hlm. 139–174.

investment return. On the other side, Haewon (2012) and Giudici (2018) explain that there is no investment without risk, including investing in P2P lending.<sup>8</sup> If there is a problematic credit, it is fully borne by the lender, not the P2P lending company. This is different from the banking system, where in case there are problematic credits, the bank will be borne. Pokorna and Sponer (2016) then state that the highest risk which must be borne by the lenders is when there is bad credit and failure of payment from the borrower.<sup>9</sup>

Remembering that the FinTech-P2P lending is a relatively new thing in Indonesia, and that there are not yet many researches which discusses this topic, it is important to take part by analyzing: how are the characteristics and the loan quality of P2P lending in Indonesia? It is the introductory description on the risks and returns of the P2P lending in Indonesia. It is hoped that the results of this study may become one of the sources of information for the society in transacting in the FinTech-P2P lending, both to invest and to take loans.

## B. RESEARCH METHODS

This is a type of descriptive-qualitative method. The analysis tool used is descriptive statistic, through the stages of: data collection (the characteristics and the amount of loans distributed → data tabulation → data processing (quality of loans: current, noncurrent, bad) → data analysis (in the form of tables and graphics) → data description → conclusion. The research objects are the FinTech-P2P lending companies which are registered and officially permitted by the Authority (OJK) of the Republic of Indonesia, where there are 72 companies. The FinTech characteristics are measured from the number of lender and borrower accounts and the amount of loan funds distributed. Then, the FinTech quality is measured using the criteria of current loan ratio ( $\leq 30$  days), non-current loan ratio (30-90 days), and bad loan ratio ( $> 90$  days). The analysis method used is the trend analysis using the data from January 2018 to October 2018.

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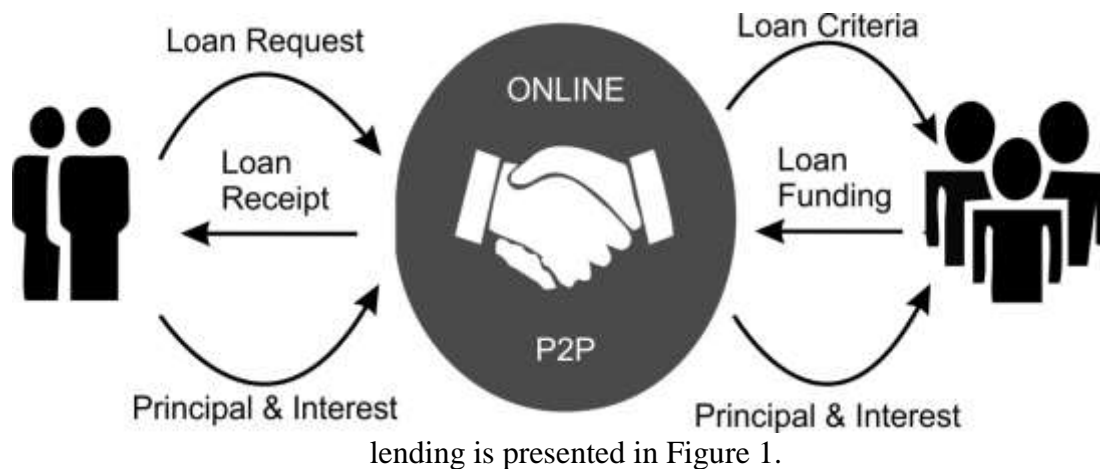
<sup>8</sup> Haewon, Y., Byungtae, L., & Myungsin, Ch. *From the wisdom of crowds to my own judgment in microfinance through online peer-to-peer lending platforms*. *Electronic Commerce Research and Applications*, Seoul National University press, 2012, Hlm. 469–483.

<sup>9</sup> Pokorna, M., & Sponer, M. *Social lending and its risks*. *Procedia – Social and Behavioral Sciences*, New York Press, New York, 2016, Hlm 220.

### C. RESULT AND DISCUSSION

Digital finance innovations have these characteristics: innovative and future-oriented, using information and communication technologies as the main facilities in giving services to the customers in the financial service sector, support financial inclusion and literacy, beneficial and may be used broadly, may be integrated with the existing financial services, use collaborative approaches, and pay attention to the aspects of consumer and data protection.<sup>10</sup>

One type of FinTech products is P2P lending. The transaction process of P2P



lending is presented in Figure 1.

Figure 1.

The Transaction process in P2P Lending (Sree, 2016)

The P2P lending system is a financial interaction scheme in financial technology between lenders and borrowers, where the transactions are carried out online.

A financial technology with the P2P Lending system does not only facilitate those who need loans, but it is also for investors who want to invest certain amount of capital. Then, the FinTech uses P2P lending in the financial transaction. The number of lender and borrower accounts tend to increase each month. On October 2018, there were 2.805.026 borrower accounts. This number increased dramatically by 980,4 percent (10,8 times) compared to the previous year, where there were only 259.635 accounts. This increase also happens to the number of lender accounts,

<sup>10</sup> Otoritas Jasa Keuangan (OJK) RI. (2016). POJK No. 77 tahun 2016. Tentang layanan pinjam meminjam uang berbasis teknologi informasi. OJK RI. (2018). POJK No. 13/PJOK.02/2018. Tentang inovasi keuangan digital di sektor jasa keuangan.

where there are 182.895. It has grown as much as 81,2 percent (1,8 times) compared to the previous year, where there were only 100.940 accounts. The large growth of the lender and borrower accounts shows the increase of the people's interests towards credit requests or loans and investment in P2P lending.

The example of the money loan service explained above is regulated in the FinTech regulations. Meanwhile, the Financial Service Authority regulates that the applications have a limit in the amount of loanable funds. The application and information technology-based money loan service is regulated in the Decree of the Financial Service Authority, or what is known as POJK No. 77/POJK.01/2016 of 2016 regarding Information Technology-Based Service of Money Loans and the Decree of the Bank of Indonesia No. 19/12/PBI/2017 of 2017 regarding the Establishment of Financial Technology.

The application and information technology-based money loan service is a type of the financial technology (FinTech) establishment in the category of Other Financial Services. In establishing its business, the company must register itself and obtain a permit from the Financial Service Authority. The amount of loans determined by the Financial Service Authority in for the application-based financial loan establishment is the maximum of Rp. 2 billion.

Apart from that, the government has given protection for the FinTech users by issuing the Decree of the Financial Service Authority No. 13/POJK.02/2018 regarding digital financial innovation in the Financial Service sector. This regulation is a stipulation which becomes the legal basis in the supervision and the regulation of the FinTech industries, especially regarding consumer protection. In this regulation, it is states that the FinTech companies must apply the basic principles of consumer protection, which are (a) transparency, (b) fair trade, (c) capability, (d) confidentiality and safety of consumer information and data, and (e) the simple, quick, and affordable handling of complaints and resolutions of consumer disputes.

Most of the credit loans in the P2P lending through January to October 2018 are current returns, in which its repayments were fulfilled by the borrowers in no more than 30 days. The percentage of the current loans in the P2P lending is on average above 97,09 percent each year, with the percentages each month as follows: January (94,65%), February (97,62%), March (98,65%), April (98,72%), May

(98,18%), June (97,14%), July (96,16%), August (96,28%), September (96,73%), and October (96,73%).

Non-current loans are loans in which its repayment is fulfilled by the borrowers in 30 until 90 days. The percentage of the non-current loans in the P2P lending are on average 1,90% each month. The non-current loan percentages each month are as follows: January (4,07%), February (1,60%), March (0,81%), April (0,75%), May (1,18%), June (2,07%), July (2,54%), August (1,83%), September (2,07%), and October (2,07%).

Then, bad loans are loans in which its repayment is fulfilled by the borrowers 90 days after the due date. The percentage of the bad loans in the P2P lending is on average 1,03% each month. The percentages each month are as follows: January (1,28%), February (0,78%), March (0,55%), April (0,53%), May (0,64%), June (0,79%), July (1,40%), August (1,89%), September (1,20%), and October (1,20%).

Most of the fund loans (credit) in the P2P lending from January to October 2018 are current loans, in which its repayment was fulfilled by the borrowers in not more than 30 days. The loan quality in the P2P lending is dominated by current loans, which reaches the average of 97,09 percent each month. The rest are non-current loans (1,90%) and bad loans (1,03%).

The low percentage of non-current loans and bad loans (non-performing loans), shows the low risks borne by the lenders. The non-performing loans are very important because it reflects the credit quality and functions as a risk management and supervision for companies in the financial service sector.

The low rate of bad loans is caused by the good quality of investment management and loan management of the lenders and also the awareness of the borrowers in fulfilling their obligations. Thus, they can control the loans well. This is in line with the research of Giudici (2018) who stated that investing in P2P lending has high risk. This is because the P2P platform has less information regarding their borrowers compared to conventional banks, and that they are unable to handle asymmetric information.<sup>11</sup>

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<sup>11</sup> Giudici, P. *Fintech risk management: a research challenge for artificial intelligence in finance*. Front Press. Paris. 2018, hlm. 97

Then, in most of the P2P lending platforms, the credit risks are not in the hands of the platform, but it is in the hands of the investors. Thus, there needs to be a good risk management and protection through governmental regulations which may prevent non-performing loans. Because of that, the investment in the FinTech-P2P lending in Indonesia has a good prospect in the future.

There are some things which must be known and taken consideration of in Peer to Peer (P2P) Lending. Nothing in this world is risk-free. There are always risks even though it is claimed to be risk-free or claimed to have small risks, including online lending. These risks must be taken into consideration when someone decides to be a lender or a borrower in the Peer to Peer (P2P) Lending business.

1. Risk of high interest rate for borrowers.

Unlike the conventional banking interest rates which are strictly regulated, there is not yet a complete set of regulations for the P2P lending. The interest rate of online loans is currently between 14% until 30% per month.

The rate of interest is determined by the P2P lending companies based on the scoring profile of the borrower as the prospecting debtor. If the borrower has a low-risk profile and is supported by adequate collateral, thus he/she may have an “A” credit profile. Thus, the interest rate obtained is low.

Meanwhile, if someone has a credit score which is not good enough, he/she will receive a “B” or a “C” rank. Thus, the interest rate which must be paid each month is higher. With a high interest rate, the burden which must be borne to repay the debt is also larger.

2. Borrowers must pay the service fee of 3% until 5%

If the loan request is accepted, thus the debtors must pay the service fee with the rate of 3%-5% from the amount of loan. That means that if the debtor's request for a loan with the amount of Rp. 10 million is accepted, then he/she will only receive around Rp9,5 million until Rp9,7 million. The amount of service fees varies from one Fintech company application to another. There are three steps of Online Lending:

- a. Fulfillment of requirements and information. If the prospecting borrower requests for loans then he/she must fill in the information. The requirements needed include and ID card, self-photo, and a selfie with the ID card.

- b. Analysis and agreement. The P2P lending company will analyze and accept the loan application before it is offered to the funder or the lender.
  - c. Debt repayment. The borrower must repay the debt through the P2P lending company according to the schedule determined.
3. The period of time for short repayment is the maximum of 12 months  

The period of time or the maximum tenor of the online lending is 12 months. Thus, it can be said that the online loan is a short-time loan. Because of that, it should only be used to pay for short-term needs. It is not recommended to use online loans to fund businesses which offer the potential of mid-term or long-term profits.
4. The low credit limit of online loans.  

With a very short tenor term, which may only be 2-3 months, so the credit limit of online loans is also smaller than the loans from banks. Only from an application, you can ask for loans between one million until fifty million rupiah, just by providing an ID card. With easy requirements and a quick process, it is no wonder that people are interested in online loans. The online loan limit will increase if the debtor is able to provide a high-value collateral. The collateral is not limited to movable and non-movable collaterals, but debtors can also use other things such as business contract letters.
5. Risk of leaked phone data in requesting for online loans.  

When requesting for online loans, there is the potential of phone contact data leakage. It may be taken by the P2P lending companies. This is because when the application is downloaded, to make it function fully, the consumer must agree with the company's request to access photo gallery, phone contacts, and camera. Thus, do not be shocked if many people from the friend list or from the contact lists are then called when problems happen.

## **D. CLOSING**

Based on the description above, it can be concluded that the people's interest for P2P lending is quite high. The number of borrower and lender accounts have increased by 10,8 times for the former and 1,8 times for the latter.

P2P lending has distributed as much as Rp.15.990.143.141.355 loan funds by October 2018. It is grew drastically by 5,3 times compared to January 2018. Majority of the loan funds (credits) from January to October 2018 were current loans, in which their repayment was fulfilled by the borrowers in maximum that 30 days. The loan in P2P lending is dominated by current loans, with the average of 97,09 persen each month. The rest are non-current loans, (1,90%) and bad loans (1,03%). The small rate of non-Performing Loans shows a good quality of financial transaction which shows a good prospect to the investors who want to invest in the FinTech-P2P lending in Indonesia.

The results of this research have implications in the aspect of knowledge and practice. Practically, the society may use the FinTech-P2P lending to borrow funds and to invest as there is ease. It is equipped with consumer protection, and there is a small risk of bad loans. In the aspect of knowledge, it may give more information in the science of financial management, especially regarding FinTech-P2P lending in Indonesia. Because of that, there needs to be future researches which support this research, like an analysis regarding the return and risk rates in transacting in the FinTech-P2P lending. The limit of this research is the period of data analysis. The researcher only used monthly data on one period, which is from January to October 2018.

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