

# Evaluating the Regulatory Scheme on Mitigation Default Risk through Insurance in Peer-to-Peer Lending

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*Abstract:* Peer-to-peer lending (P2PL) can be a source for Small and Medium Enterprises (SMEs) to obtain capital. As the public highly demands this method of capital obtainment, P2PL transactions have increased. The increase in transactions impacts the increase in existing risks, including the default status of borrowers. This risk is very detrimental to the lender as the owner of capital. The high risk will ultimately reduce the lenders' trust in transacting through the P2PL platform. The article aims to examine the causes and consequences of the risks challenged by lenders, and provide solutions by implementing the appropriate risk management. This research used the descriptive qualitative method. The result shows that the primary causes of the occurring problems are the lack of government roles in supervising, regulating, and being responsible for these activities. An offered solution is protecting funds distributed by lenders with insurance to manage the default risk challenged by lenders.

*Key-Words:* Legal Protection, Lenders, P2PL, Insurance, Risk Management

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## 1 Introduction

For developing countries like Indonesia, the existence of Small and Medium Enterprises (SMEs) is essential, [1]. The presence of SMEs can help the state by participating in increasing economic growth, helping reduce poverty, creating economic democratization, and creating job opportunities, as well as several other things that help national development, [2]. In addition, Indonesia is one of the countries with the most significant number of SMEs in the world. According to the Indonesian Ministry of Cooperatives and Small Medium Enterprises, as of March 2021, the number of Indonesian SMEs has reached 64.3 million. Considering Indonesia's gross domestic product (GDP), SMEs are the most significant contributor to this country's GDP, amounting to 61.07% or equal to 8,574.89 trillion rupiahs. In addition, according to the Indonesian Financial Service Authority (FSA) to finance itself annually, the SMEs sector requires around 1,000 trillion rupiahs, [3].

In addition, SMEs also contribute to national development by absorbing labor. Based on data from the Ministry of Cooperatives and SMEs,

employment in the SME sector increased. It employed 2,584,212 people as workers or equivalent to 2.21%. With this data, it can be estimated that in 2022, SMEs' contribution to Indonesia's GDP will increase to 63%, and the number of SMEs will increase from 2.5 million to 5.5 million. Then, in 2024 the total contribution is expected to increase to 65%, [4].

Even so, from time to time, SMEs still need to solve the same problem, which concerns the source of capital. According to the Central Statistics Agency data in 2020, as many as 69.02% of SMEs experienced capital problems. From the complaint reports to the Ministry of Cooperatives and SMEs, 39,225 SMEs experienced capital constraints.

Based on the results of a survey conducted by PriceWaterhouseCoopers, it was also found that 74% of SMEs in Indonesia still need access to financing. In 2016, SMEs obtained less than 20% (or equivalent to 5.9 billion rupiahs) of capital from the banking sector. SMEs should get a maximum of 29.8 billion dollars of funds provided by the government through banks. The reason is that these SMEs do not meet the requirements to become bank

borrower. Based on data presented by an exceptional staff of the Minister of Cooperatives for Small Medium Enterprises, Agus Santoso, in 2021, the number of credit disbursements only rotated at 22-25% or a maximum of only 30%. It is estimated to take a very long time to reach the maximum rate of 100%. From this, capital is the main factor in increasing the success rate of SMEs. Therefore, through the Minister, the government has tried to undergo various efforts to overcome these problems, such as by providing support programs. Such supporting programs include interest subsidies, placing government funds in partnering commercial banks, working capital loans and restructuring of SME loans, and SME working capital loans the government bears.

In addition, after seeing the excellent contribution of SMEs but with the challenges of a relatively significant financial burden without obtaining support from conventional financial institutions, the government made efforts to protect SMEs' activities by providing them ease in accessing funding sources. Furthermore, given that it is challenging to obtain funds from conventional financial institutions such as banks, the government tried to develop more innovative and progressive innovations in the financial sector by bringing up financial technology-based activities (Fintech). Fintech uses the concept of merging financial transactions with technology. It aims to make financial transactions easier for people who need more time and are limited by long distances, [5].

The financial technology or internet-based financial activity issued by the government to address SMEs funding problems is the Peer-to-Peer Lending (P2PL) scheme. Article 1 (3) of the Financial Service Authority Regulation (FSAR) No.10/POJK.05/2022 concerning Information Technology-Based Loan Services states that P2PL is essentially a process of lending and borrowing money between the lender and the borrower without a direct meeting of each party. This activity is carried out through an internet-based platform that tries to eliminate the role of banks. This method is expected to help overcome financial problems confronted by SMEs actors, [6]. In addition, the emergence of P2PL is expected to help improve the country's economic efficiency by resolving the financing burden of SMEs, [7].

The emergence of this P2PL financing scheme was very well-received by the community. It was known that as of April 2022, 102 fintech lending companies obtained P2PL licenses from the FSA, [8]. Then, as of November 2021, P2PL assets accounted for 4,160.87 billion rupiahs with

15,726.06 billion rupiahs of funds from domestic and international lenders. Next, 12,977.52 billion rupiahs of the funds were distributed to debtors, [9]. The P2PL scheme thrived due to its convenience in conducting transactions, low operating costs, fast and simple procedures, and collateral-free loans.

The first P2PL platform in the world was founded in the UK in 2005 under the name of Zopa.com, [10]. Meanwhile, in Indonesia, it only appeared in 2015 under the Uangteman.id platform. The emergence of this platform led the government through the FSA to issue regulations in the form of FSAR that serve as the legal basis for implementing these activities. In addition, the FSA also issued the FSA Circular Letter No.18/SEOJK.02/2017 concerning Information Technology Administration and Risk Management in Information Technology-Based Lending and Borrowing Services. However, the regulations expected to become the legal basis for P2PL activities have yet to fully accommodate all components of the P2PL, especially concerning lenders. A lender is a person who plays a role in providing capital loans to borrowers.

Although the community strongly supports P2PL activity, it does not necessarily reduce the level of risk lenders face. Considering the culture of Indonesian people who tend to be consumptive, rather than using the debt to spend on primary needs or to increase the value of their assets, they tend to spend it on valuable goods. The model differs from developed countries such as Singapore, where citizens have a culture of only borrowing if it is urgent. This cultural difference makes lenders in Indonesia face a higher risk of default. The higher risk is shown by the FSA's analysis results in November 2021 regarding borrowers' behaviors on installment responsibilities. It was shown that borrowers could make reasonable installment payments in the first 30 days. However, their payments become irregular in the next 30-90 days. Then, they experienced terrible credit after 90 days. This data further strengthens the lenders' concern about the higher risk of default. If this issue is not resolved, it will impact the loss of lenders' confidence in P2PL schemes. It will also lead to other broader consequences.

If the lender enters a platform not legalized by the FSA, the lender's risk for a loss will be even more significant due to uncertainty, anonymity, lack of control, and the potential for opportunistic behavior. Eventually, it can be said that P2PL transactions are higher risk investment, and lenders will lose their trust in them. Ultimately, the number of transactions will decrease, and the platform will experience bankruptcy. Therefore, the FSA must

pay attention to special rules to maintain lenders' trust. The most important thing is providing certainty to lenders by guaranteeing them long-term benefits on their investments, [11]. Therefore, the FSA holistically aims to achieve registration and platform licensing stratification. They are considering that many unlicensed platforms will increase the risk of P2PL activities. The unlicensed platform impacts the lack of accommodation for the needs of P2PL components, in this case, protecting lenders from all risks that may occur. P2PL activities require legal certainty to avoid being classified as dark bank or shadow banking activities, [12].

The government must be careful in setting the P2PL scheme to accommodate the community's needs and reduce various risks. If the government is not careful and does not adjust to the conditions of its people, the regulation will negatively impact the P2PL component. For example, China, the country with the most significant number of P2PL platforms in the world, has experienced a downturn due to the need for more appropriate applications of P2PL regulations. At that time, China tried to tighten the rules for the P2PL platform, which then impacted the platforms. As a result, many platforms needed to meet the set-up requirements, becoming bankrupt. Based on data as of June 2020, 60% of platforms, or around 5,000 platform units, were affected by the regulation, leaving only around 29 platforms, [13]. In addition, China experienced liquidity in this event, resulting in the loss of lenders' financial capital, [14].

Indonesia has issued regulations through the FSA, considered inadequate to serve as legal protection for lenders. P2PL activities are part of civil activities, which means that the parties who bind themselves to each other have responsibilities. Unfortunately, the mutual responsibility is stipulated in Article 18 of the FSAR No. 10/POJK.05/2022 cannot be used as a preventive measure for lenders regarding the risks that occur. The contract regulated in the FSAR applies is (1) the provider and the lender and (2) the lender and the loan recipient. This contract does not explicitly regulate the contract between the provider and the borrower. Eventually, the lender is the party who must bear the most significant risk. This article attempts to find an answer in how to regulate the legal protection for lenders, thus it can provide a guarantee for lenders in investing their funds in P2PL. Since the regulation does not regulate the agreement between the lender and the borrower, subsequently the legal protection for the lenders is rather inadequate. Thus, if the lenders' invested capital experienced liquidity,

based on Article 37 of the FSAR, the platform should be responsible for its negligence. Nevertheless, unfortunately, based on what has been conveyed by the Supervisory Team, the platform can only seek to collect from borrowers who failed to repay the capital they borrowed. However, the collection made by the platform needs to provide a guarantee of success. The risk is worsened if the lender invests in a bankrupt platform, it may cause the capital never to return because, after the platform's bankruptcy, no legal action can be taken, [15]. Accordingly, activities in P2PL are dangerous for lenders since the absence of the legal protection.

The lender must also bear these risks. The arrangement contradicts Article 14 of Law No. 25 of 2007 concerning Capital Market Investment, which states that investors have the right to obtain certainty of rights, legal certainty, protection, and available information concerning the business activity. Although it does not mention compensation, there is the phrase "certainty of rights ."It means that the lender should be able to collect his rights to obtain what he is entitled to, at least the capital he invested, which is his personal property.

In addition, Article 30 of Law No. 21 of 2011 concerning the FSA (a) states that the FSA has the authority to legally defend consumers of financial services and instruct financial service institutions to resolve all forms of consumer complaints as a result of losses caused by financial institutions. In point (b), it is stated that the aggrieved party can restate several losses through the court. Through this regulation, lenders should be able to obtain protection for the risks they experience. The law has been violated if the platform does not give the lenders rights. Article 11 of Law No. 8 of 1995 concerning the Capital Market also states, "Any party who suffers a loss as a result of the violation of this law and its implementing regulations can claim compensation." This law gives lenders the authority to obtain their rights for the losses they suffered, [16].

Unfortunately, based on FSAR No. 10/POJK.05/2022, the sanctions that can be imposed on platforms for their negligence in managing their businesses which causes losses to lenders, are administrative sanctions. The sanctions are written warnings, fines, business restrictions, and revocation of business licenses.



Fig. 1: How P2PL Works

It does not state the phrase sanctions for compensating the losses suffered by the lenders. Worse, if the FSA revokes the platform's license, the lender can do nothing to re-obtain the capital he invested, [17]. The risk is exacerbated by standard agreements made by the platform in this activity. In the agreement, it can be interpreted that the platform does take responsibility for any losses that may occur to the lender. It is evidenced by the various warnings made by the platform on its main web page, such as warning the lenders to be careful in conducting transaction activities. In the event of loss, all losses incurred will be borne by the lender, [18].

Even though the activities carried out in this P2PL scheme are civil activities, they should obey the existing regulations. Such as, article 1754 Civil Code states that as a person who gives a loan, a lender is entitled to all receipts as much as he spends. Followed, Article 1759 of the Civil Code, which essentially means that if the platform rejects it, lenders can carry out litigation efforts under Article 1759 of the Civil Code. However, once again, litigation efforts need to provide certainty about the risks experienced by lenders.

China, a country with a high level of liquidity in P2PL activities, has also tried various methods to reduce the risks experienced by lenders. One is that if a borrower declares default, the social approach method is applied. The social approach method is carried out by contacting social contacts on the borrower's device to reduce the risk of default and motivate the borrower to continue making payments on the loan. Indonesia also applies this method, though unlicensed platforms usually implement it. This method violates the law, namely Indonesia's Law on Electronic Information and Transaction.

In addition, China has also attempted to implement preventive methods to reduce the risk of default by borrowers. They tried to create cooperation between the P2PL platform and state-owned business enterprises (SOEs) in the form of

venture capital (VC). It was found that the cooperation can reduce P2PL platforms' bankruptcy risks. Data showed that 42.82% have avoided the risk of default, 56.31% of platforms have avoided losses, and 87.2% of platforms have proven to become successful. Furthermore, the collaboration between the P2PL Platform and SOEs has proven to improve accounting performance, increasing the amount of capital used to develop the professionalism of the platform operations, [19].

Apart from that, China also has various regulations that can be used as legal protection for lenders in this P2PL activity, such as the Equal Opportunity Act for Credit Reports, the Fair Credit Reporting Act, the Debt Collection Practices Act, the Electricity Fund Transfer Act, and the Consumer Protection Act, [20]. These laws complement each other. For instance, the law on the Debt Collection Practices Act guarantees lenders their rights. Therefore, lenders can use this law as a legal basis.

As the first country to establish the P2PL platform, the UK has some regulations on P2PL. The Financial Services Act is regulated by the Financial Conduct Authority (FCA) and the Self-Regulatory Industry Association, and the P2P Financial Association (P2PFA) regulates the P2PL implementation standards. P2PL schemes must be applied based on the precautionary principle. In addition, it must be transparent, fair, and orderly.

Then, the Consumer Financial Protection Bureau (CFPB) supervises financial services in the US. Any financial services found unfair, fraudulent, or harassing customers can be reported to the institution. All rules are preventive measures to avoid default risk on P2PL activities.

Therefore, Indonesia must also seek similar rules adapted to its citizens' culture to protect lenders from the risk of default. The rules are also an opportunity for Indonesia to advance the country's economy. Based on the data from Brandessence Market Research (2020), it was estimated that in 2025, there would be an increase in the P2PL loan market of US\$589.05 billion with a 50.2% world growth rate. If Indonesia succeeds in creating security for its lenders, Indonesia is undoubtedly able to compete globally.

There need to be thorough studies, including those on risk management, before making new regulations to accommodate the needs of P2PL components. Every financial institution must have risk management to perform prudence financial institutions. The better the risk management applied, the better the company management will overcome the existing risks, [21]. Some of them were done by tightening the process of checking borrowers'

identities, then forward to the lender for selection. The criteria for testing the borrower's identity can be standardized by the government, [22]. The government can also apply a risk guarantee model to P2PL where the responsibility for default is assigned to the P2PL platform to protect lenders' principal loan and interest rights. This method will later increase the trust of lenders to provide loans regardless of who the borrower is ultimately increasing the number of transactions. Even so, this policy may have a negative side. With guaranteed profits for lenders, P2PL transactions will have deprived quality. Considering there is no risk, lenders will only think about lending and making profits regardless of the borrowers' quality. This P2PL model will be good if a more profound analysis is carried out and combined with other models that can cover its shortcomings. Another model is to apply low interest to the borrower to avoid default risk, [23].

The FSAR No. 6/POJK.07/2022 concerning Consumer Protection in the Financial Services Sector, Article 5 is a preventive method provided by the government. It mentions consumer protection measures, namely the platforms' obligation to provide updated and easily accessible information on the platforms' services for consumers. In addition, a consumer can report cases of violation to the investment alert task force. Similarly, Article 100 of FSAR No.10/POJK.05/2022 states that P2PL activities must prioritize transparency, authenticity, fairness, confidentiality, and data security. In addition, the platforms can provide education that can help parties avoid losses. One is helping lenders make optimal decisions by providing information about the borrower's credit history and financial status, [24]. By recognizing the borrower's information, risks of default can be avoided. Unfortunately, Indonesia still needs to apply these methods optimally.

In addition, regulations issued by the FSA have yet to accommodate the needs of all P2PL components. Since it is estimated that the growth rate will increase, accompanied by the possibility of more significant risks faced by lenders, more is needed to use FSA regulations merely. This issue requires regulations issued by the government, namely the Constitution. The law can later act as a *lex specialis* because, so far, existing P2PL regulations are very general, where many laws and regulations are used, such as the Civil Code, capital market laws, and the Electronic Information and Transaction Law.

Consumer protection for lenders is regulated in the FSAR No. 6/POJK.07/2022 concerning

Consumer Protection in the Financial Services Sector and the Code of Conduct for Responsible Information Technology-Based Lending and Borrowing Services. In addition, it is also contained in the FSAR No.1/POJK.07/2014 concerning alternative dispute resolution institutions in the Financial Services Sector, which includes non-litigation dispute resolution methods. This law is very counter-progressive. It cannot be used as a solution because if a non-litigation route is applied to this activity, it could be more effective considering the significant risks faced by lenders. The FSAR only regulates three stages of dispute resolution: Alternative Dispute Resolution, Decree of the FSA complaint settlement, and dispute resolution by the Alternative Dispute Resolution Institution via mediation, adjudication, and arbitration. However, it has yet to provide lenders with certainty and confidence regarding the level of risk they experience. Thus, in the end, the assumption that P2PL activities are dangerous will occur. Seeing the various facts that exist, the author will elaborate further on the activities and protection of lenders in the P2PL scheme and the regulations that can be used to protect lenders from the risks that occur. This article seeks to formulate the risk management of lenders in P2PL fintech in Indonesia using insurance, to reduce risks and make them measurable.

## 2 Methodology

This paper used the qualitative descriptive research method. Qualitative descriptive research is purely data-derived in that codes are generated from the data in the course of the study. The studies generally are characterized by simultaneous data collection and analysis driven by various regulations in Indonesia primarily related to the Financial Technology regulation. In addition, it used the descriptive analytical approach to analyze information about risk management by using insurance as an alternative settlement.

## 3 Result and Discussion

### 3.1 The Risks of Peer-to-Peer Lending

P2PL is an innovation in the field of digital finance. The percentage of the demand for P2PL activities increases annually. However, it is undeniable that the increasing interests and the number of existing transactions are also accompanied by increasing risks, especially for lenders/creditors. The lender is

the party who has the most significant possible loss in this activity, considering that in this scheme, the lenders are the party who provides the capital. It is stated in the P2PL platform that lenders may experience the risks of default, fraud, recession or economic crisis, and bankruptcy of the platform.

Lending and borrowing institutions experience credit risk. A credit risk is the risk experienced by the bank when customers fail to fulfill their payment obligations properly, [25]. Meanwhile, in P2PL activities, credit risk is commonly referred to as liquidity risk. Liquidity risk arises due to the parties' obligations to settle their short-term obligations. However, if this risk occurs due to the default, it can be resolved using dispute resolution efforts, namely the litigation and non-litigation methods.

A risk is a state of uncertainty considered by people in deciding whether or not they should conduct online transactions. Risk is uncertainty and unwanted consequences in carrying out a particular activity. Perceived risk is defined as the uncertainty consumers face when they cannot see the possibilities that will occur from a decision to purchase. Before choosing a product or service, consumers will undoubtedly consider the risks of using them. Similarly, in using financial technologies, consumers will decide whether to use online transaction-based services, considering they may face significant risks. The risk arises because consumers need help to make face-to-face transactions. There is no direct interaction between users and developers, [26].

To minimize the risks that may arise, the FSA has released regulations related to information technology (IT) for non-bank financial industry. This is related to the issuance of the FSAR No. 4/POJK.05/2021 concerning the Application of Risk Management in the Use of Information Technologies by Non-Bank Financial Service Institutions in March 2021. This regulation requires non-bank financial service institutions to have a Data Center and a Disaster Recovery Center (DRC) as a backup that has a different location from the primary Data Center.

The P2PL financial technology industry is considered to have been provided with conditions following the FSA's new provisions regarding risk management in using Information Technology for the Non-Bank Financial Industry. The Indonesian Joint Funding Fintech Association, a partner of the FSA, always supports any regulations that can strengthen the role of fintech funding in contributing to the digital financial sector. This is because the current presence of fintech funding is increasingly relevant to facilitate the public and

business actors, especially SMEs, with access to funding. This regulation is expected to positively impact the fintech industry so that all platforms will increasingly have solid guidelines for implementing adequate risk management, especially in information technologies.

Indonesia Fintech Association (AFPI) has preventively formed an ethics committee that will oversee the implementation of the P2PL code of conduct (CoC). In the future, the fintech industry's efforts to fund and provide safe and comfortable consumer services will keep developing well. In the code of ethics, AFPI stipulates rules related to loan interest, collection mechanisms, and access to customer data. Moreover, the existence of a fintech data center is one of AFPI's initiatives to help the industry. It is to continue improving the funding portfolio quality, mitigate data on problematic borrowers better, and prevent excessive funding on other platforms. Ideally, all platforms must integrate with the FDC (Fintech Data Center) in real-time, especially to indicate rogue borrowers. For example, if the borrower does not pay off the debt within 90 days, that person will be recorded in the fintech data center as a problematic borrower.

Peer-To-Peer Lending (P2PL) Fintech has business risk management. P2PL fintech companies function as platforms that bring together lenders and borrowers, which allow lenders and borrowers to carry out direct lending and borrowing transactions through an electronic system.

The P2PL platform challenge several risks. First is the strategic risk associated with determining/deciding the company's strategies. The failure to manage strategic risks will result in sub-optimal company value. The company may even fail on the way, then P2PL companies are in a competitive (digital) ecosystem with a relatively large number of players. As of 2022, there are 102 companies. The substantial market share can only be engaged with the right strategy, including synergizing with institutions/companies in the ecosystem.

Second, operational risks can arise from system weaknesses and platform resources. One of the strengths of the P2PL platform is the information system. Unreliable information systems, including cybersecurity weaknesses, will result in the platform's inability to provide optimum services. They can even harm users. This operational risk can also occur in the form of poor scoring quality and sub-optimum and non-performing loan collection capabilities. The requirement to have SNI ISO 27001 certification is one of the mitigations of information security management. There are also

provisions for cooperating with credit information providers. Apart from that, a joint fintech data center (FDC) for the P2PL industry association can be an effective form of mitigation.

Third, the risk of fraud. This risk may arise from the P2PL platforms or loan recipients. Some P2PL platforms may practice Ponzi schemes or shadow banking. Thus, there needs to be strict regulation and supervision by placing funds in a time-limited escrow account. The loan recipient may also commit fraud by misusing the identity of another party or intentionally not intending to repay the loan. Using digital signatures and track records at FDCs and other data sources can mitigate this effect.

Fourth, reputation risk is in the form of negative news that impacts the company's reputation. For example, the P2PL fintech industry had a bad image due to the actions of illegal fintech in 2019. These illegal fintech actors are P2PL platforms that do not have FSA-registered permits but still illegally operate. They charge very high interest and fines with unethical collection methods. The billing method is carried out through threats or irresponsible spreading of information/photos to other parties. Reputational risk also has the potential to arise from the inability of P2PL platforms to provide services according to user expectations.

Fifth, compliance risk can arise from P2PL platforms' non-compliance with laws and regulations. There are special provisions in the P2PL industry concerning access to personal data from user devices. P2PL platforms can only access the camera, microphone, and location. The permitted access is contrary to other applications (non-P2PL platforms), which are generally free to access personal data, even accessing data unrelated to their business. In addition, personal data has not been specifically protected by law. Personal data protection provides restrictions on accessing personal data. With this Personal Data Protection Act, personal data can be protected from misuse.

Sixth, the legal risk that raises the potential for lawsuits can occur if the P2PL platform fails to fulfill its promised obligations or is in default. In running a business as a platform, there is at least an agreement between the P2PL platform and the lenders. The lender entrusts the distribution of loans to the borrower according to the agreement. In P2PL business transactions, there is one main risk, namely credit risk. However, this risk is not borne by the P2PL platform but by the lender.

In the risk assessment process, the platform uses the TKB90 and TKW90 analytical instruments

to monitor the financing success rate's progress regularly. This is part of implementing the transparency principle stated in Article 101 of the FSAR No 10/POJK.05/2022 concerning Information Technology-Based Loan Services. With transparency, investors will have a more precise knowledge of the company's success in facilitating the settlement of lending and borrowing obligations. TKB90 measures the success rate of P2PL platforms in facilitating the settlement of loan obligations within a period of up to 90 days from the maturity date. TKB90 is calculated from 100% subtracted by the value of TKW90.

Meanwhile, TKW90, a non-performing loan (NPL) to the public or default, measures the level of default or failure to settle obligations more than 90 days from the due date. TKW90 is calculated from the outstanding default of more than 90 days divided by the total outstanding, multiplied by 100%. It serves as an illustration so that investors can know the possible level of financing failure. The default rate of the borrowers indicates this through information on the success rate indicated by the TKB90.

If borrowers receive loans from more than one platform (multiplatform), it will increase the risk percentage in this activity, [27]. It will be more detrimental for the lender if the borrower simultaneously has more than one installment with a small payment capacity. A borrower with more than one installment increases the risk of default. The risk of default is the risk experienced by the lender if the borrower does not fulfill the loan payments. The failure to pay can also be called a non-performing loan (NPL). To call a borrower an NPL, the borrower must already be late in fulfilling the loan payments for more than 90 days from the due date. These risks then raise concerns for lenders in transacting using P2PL services.

Apart from the concerns caused by borrowers, some concerns come from the platform's policies. The platform does not bear any losses incurred in the transaction. This policy applies to various platforms. If there is a risk of default at any time, the platform will only assist in billing according to the platform's procedures. Even so, it does not guarantee the return of the funds issued by the lender. In fact, in this activity, organizers are obliged to manage and operate the platform correctly. They are responsible for the borrower profiling system. All information organizers provide in this activity must be honest and transparent, [28]. The truthful information is so lenders can later filter borrowers according to their interests. Considering that P2PL activities require

caution, all information provided on the platform's website must be clear and transparent to avoid future risks, [29].

Through AFPI, the Indonesian government has attempted to overcome occurring risks, such as the risks caused by multiplatform borrowers. For example, AFPI tried to limit each borrower to only being able to borrow on a maximum of 5 platforms. In addition, as explained by the Director of Fintech Licensing and Supervision, Hendrikus, all actions carried out in P2PL activities must adhere to FSA decisions and regulations, including the billing mechanism.

Apart from that, the FSA required platform operators to build partnerships with insurance companies so that the platform could transfer the responsibility to insurance companies in the event of a loss to lenders. However, before lenders can apply for a transfer of responsibility to an insurance company, they must follow the regulated installment billing requirements.

In the applicable collection mechanism, if the borrower is deemed unable to pay or if, 90 days after the maturity date, the borrower fails to pay the proper installment, the organizing company must stop the collection. As conveyed by the Deputy Chairperson of AFPI, Sunu Widyatmoko, if the borrower fails to pay 90 days after the maturity date, there is no need to collect the loan funds as they are considered lost.

Then, to overcome borrower fraud, the organizing company must track the borrowers' loan records. Those who fail to repay the previous debt will be prohibited from taking loans from other platforms licensed by the FSA. Meanwhile, the loss coverage can be requested by the insurance company.

P2PL platforms should also develop several procedures and mechanisms to anticipate the risk of financing failure from the fund management customer partners' point of view. The procedure protects investors' funds and increases investor confidence while minimizing displaced commercial risk. First, the platform should have a risk protection program to ensure principal repayment by collaborating with one of the Indonesian credit guarantee insurance providers. In addition, each lender will be covered with life insurance. There are also additional options for further protection against default due to certain factors.

Second, from the investors' point of view, the platform management should guarantee the security of funds by organizing escrow and virtual accounts as required by the FSAR. This regulation states, "Every transaction and lending and borrowing

activity or implementation of an agreement regarding lending and borrowing between or involving providers, lenders, and borrowers must be carried out through an escrow and virtual account." If a provider violates this law, it must bear the losses suffered by each user without prejudice to the user's rights, according to the Civil Code.

Third, the platform should formulate steps for the Business Continuity Plan (BCP) to ensure that operational activities can continue to work under certain conditions, including in cases of force majeure. The force majeure policy is crucial, especially during the 2019 Coronavirus Disease (Covid-19) pandemic. The general policy applied in such conditions aims to tighten financing approvals and make the financing distribution process more selective and measurable.

### **3.2 The Insurance Mechanism In P2PL Platforms**

Every company must cooperate with insurance companies to protect invested funds in the financial sector, [30]. Therefore, insurance companies will cover the risks in P2PL activities, one of which is the risk of default. However, the FSAR No. 10/POJK.05/2022 does not regulate the insurance system in P2PL activities. Besides that, this regulation also clearly states that it is not permissible for a platform to guarantee the return of lender funds for the risks that occur.

However, if this regulation is not reconsidered, it will impact reducing the number of investments and lenders. Platforms will become bankrupt. Therefore, in reality, platforms continue implementing a guarantee system and still cooperate with insurance companies to maintain sustainability. This decision was also supported by the Deputy General Chairperson of the Indonesian Fintech Association (AFTECH), Adrian Gunadi, who said that fintech companies could cooperate with insurance companies to bear the risk of default when borrowers fail to pay 90 days after the maturity date. Below is a sample that shows some of the policies applied by platforms in running their business.



Table 1. Mechanisms for implementing insurance and guarantees on several P2PL platforms

| Platform     | Insurance, guarantees, and other information   |
|--------------|--|
| Investree    | <ol style="list-style-type: none"> <li>1. The total TKB90 rate is 98.01%</li> <li>2. Collaborates with insurance companies, namely Sinar Insurance and BRIt insurance; 3. 3. Askrindo Insurance, Jamkrindo, and Jamsyar.</li> <li>3. Products that can submit for insurance claims are invoice financing, working capital term loans, buyer financing, and online seller financing.</li> <li>4. The insurance claim amount is 75-90% of the principal loan without interest, and the loss is at least 10% of the principal loan.</li> <li>5. Insurance claims can be made only 91 days after maturity if the borrower fails to pay installments.</li> <li>6. The guarantees required by the Investree are in the form of invoices, demand deposits, and personal guarantees as additional guarantees.</li> </ol> |
| Amartha      | <ol style="list-style-type: none"> <li>1. The total rate of TKB is 97.52%.</li> <li>2. Collaborates with Jamkrindo as an insurance partner.</li> <li>3. Insurance claims are only 75% of the principal loan without including interest.</li> <li>4. Insurance claims can be made starting from the <sup>5th</sup> week after the borrower fails to pay the installments.</li> <li>5. The Amarth platform does not regulate personal guarantees. However, in the case of a default, it will be borne in groups, namely the group of borrowers. So, the system of joint responsibility applies to this platform.</li> </ol>  |
| Koinworks    | <ol style="list-style-type: none"> <li>1. The total TKB90 rate is 94%.</li> <li>2. Cooperates with Bank Mega and Sinar Mas as life insurance and PT Lunaria Annua as guarantor of funds in the case of default.</li> <li>3. The amount of funds that can be covered by insurance depends on the size of the loan grade. There are five types of grades, from grades A to E. The rate is 100% for grade A, 80% for grade B, 60% for grade C, 40% for grade D, and 20% for grade E.</li> <li>4. Default is considered to occur after 90 days of the payment due. Thus, the lender can make an insurance claim the day after.</li> <li>5. The collateral requested by this platform is an invoice.</li> </ol>   |
| Modal Rakyat | <ol style="list-style-type: none"> <li>1. The total TKB rate is 99.88%.</li> <li>2. Cooperates with insurance companies, namely Asei, Intra Asia Insurance, and CIU Insurance.</li> <li>3. Insurance claims can be made 90 days after the payment is due. The insurance only applies to the principal loan without including the interest.</li> <li>4. The guarantee requested by the platform is in the form of an invoice or invoice guarantee</li> </ol>  |
| Mekar        | <ol style="list-style-type: none"> <li>1. The TKB90 rate is 100%</li> <li>2. This Platform collaborates with lending partners as parties that protect the funds to make insurance claims. The lending partners are Dwi Tunggal Savings and Loans Cooperative, Mekarsari Savings and Loan Cooperative, and Melania Credit Union Savings and Loan Cooperative.</li> <li>3. The amount of funds that can be claimed by insurance is a maximum of 80% of the lenders' principal fund.</li> <li>4. Claims can be made if the borrower does not make installments 14 days after the maturity date, while the maturity is 90 days.</li> <li>5. This Platform requests collateral in the form of houses, shophouses, or apartments.</li> </ol>   |

The data shows that the average TKB rate is more than 90%. TKB90 is a measure used to show the P2PL fintech operators' level of success in providing loan settlement obligations within 90 days from the maturity date. The higher the TKB90 rate, the better the platform service. This TKB rate must be displayed in the P2PL platform's application or website, as regulated in the FSAR.

Platforms may gain more investors by providing exemplary service and implementing a guarantee system. Some platforms apply guarantees in the form of invoice financing or payment. Invoice financing is an invoice for goods or services provided to the payor to be used as collateral to obtain funding from lenders. The payor is the party

who is responsible for the payment of the invoice. There is also a platform that implements a guarantee system.

Meanwhile, some other platforms try to eliminate the guarantee system and instead use a joint responsibility system. The Bank of Indonesia dictionary states that a joint responsibility is the joint, individual, or specific responsibility of the debtor to bear the payment of all debts. The payment of one debtor results in another being free from the obligation to pay the debt. This system forces third parties to bear debts from debtors.

## 4 Conclusion

Let us look at the Indonesian GDP (Gross domestic product or one of the essential indicators in measuring a country's economy). SMEs are the sector that gives the most significant contribution to the GDP, amounting to 61.07% or equal to 8,574.89 trillion rupiahs. Seeing the excellent contribution of SMEs, the government seeks to help develop them. Through P2PL, SMEs can quickly obtain capital. Therefore, through the FSAR No. 10/POJK.05/2022, the government has officially permitted the establishment of the P2PL business.

There are already 102 official P2PL platforms in Indonesia, and each has its respective system. Realizing that many risks can occur in P2PL activities, such as the risk of default to the risk of platform bankruptcy, each platform seeks various ways to avoid them. However, the lender protection is not properly regulated in the Indonesia legal system. Primarily because in P2PL, the agreement is between the platform and the borrower, and not between borrower and lender. Therefore, to protect the lender investment, is to implement a system of guarantees and insurance. Several platforms have implemented an obligation system for borrowers to provide collateral as requested by the platform. Such as guarantees in the form of financing invoices to guarantees in the form of buildings. In addition, they also cooperate with insurance companies, where every time there is a default, the lender can claim the funds through the insurance company. This system is intended to continue providing trust and security for lenders in conducting transactions in P2PL activities so that the transaction process can continue to run smoothly.

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-Ita Fitriana - analysis tools, or data and assisting in wrote the paper.

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