

PEER-TO-PEER LENDING VS. COMMERCIAL BANK'S CREDIT SYSTEM: FINANCING SOLUTIONS FOR MSMEs IN INDONESIA

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ABSTRACT

Innovation brings advantages and disadvantages which results in acceptance and rejection from people. Technological innovations have affected all sectors of life, particularly, the financial sector with the emergence of financial technology. One of them is marked by the emergence of Peer-to-Peer lending ("**P2P lending**"), an information technology-based lending service, which provides loans to those who need funds with a faster process, yet without having to collateralize any assets. The easier and faster process of P2P lending accommodates the needs of Micro, Small, and Medium-sized Enterprises ("**MSMEs**"), specifically non-bankable MSMEs, to obtain loans. However, P2P lending has not replaced banks because their existence has earned the people's trust with the quality of its services. This paper aims to provide an explanation of the differences between commercial bank's credit systems and P2P lending in Indonesia to give understanding to the public regarding loans through both systems. The results of this paper shows that the two systems have their respective advantages and disadvantages, so that hopefully the people can be considerate in choosing them to meet their needs.

Keywords: Financial Technology, Peer-to-Peer Lending, Commercial Bank, Credit, MSMEs.

INTISARI

Inovasi memberikan kelebihan dan kekurangan yang menghasilkan penerimaan dan penolakan dari masyarakat. Inovasi teknologi telah mempengaruhi semua sektor dalam kehidupan kita, khususnya sektor keuangan dengan munculnya teknologi keuangan. Salah satunya ditandai dengan kemunculan P2P lending, yaitu layanan pinjam meminjam uang berbasis teknologi informasi yang memberikan pinjaman kepada yang membutuhkan dana dengan proses yang lebih cepat, namun tanpa harus menjaminkan suatu aset. Proses yang mudah dan cepat mengakomodasi kebutuhan MSMEs, khususnya yang *non-bankable*, untuk memperoleh pinjaman. Namun, P2P lending belum menggantikan bank karena keberadaannya selama ini dipercaya masyarakat dengan kualitas layanannya. Tulisan ini bertujuan untuk memberikan penjelasan terkait perbedaan antara sistem kredit di bank umum dan P2P lending di Indonesia untuk memberikan pemahaman kepada masyarakat dalam hal memperoleh pinjaman melalui kedua sistem tersebut. Hasil penelitian hukum ini menunjukkan bahwa sistem kredit di bank umum maupun P2P lending memiliki kelebihan dan kekurangannya masing-masing, sehingga diharapkan masyarakat dapat mengerti dan bijak dalam memilih layanan dari kedua sistem tersebut demi kebutuhannya masing-masing.

Kata Kunci: Teknologi Keuangan, Peer-to-Peer Lending, Bank Umum, Kredit, UMKM.

INTRODUCTION

Nowadays people demand efficiency in their life to accelerate their activities. Technological development offers efficiency in every sector of people's daily life, including the financial sector. Technological development has pushed companies to change their platform and system to business digitalization (Hendriyani et al., 2018). Technological development uses the internet to connect everyone around the world to almost everything. The emergence of financial technology ("fintech") is one of the effects of technological development that offers efficiency. National Digital Research Centre ("NDRC") defined fintech as an innovation in financial service (Wahyuni, 2020). Other than that, the Financial Stability Board ("FSB") also gave their own definition of fintech, as a financial innovation based on technology that can produce business models, applications, processes, or new products that affect the financial market, institutions, and financial service providers (FSB, 2019). Fintech is the implementation and utilization of technology to improve banking and financial services carried out by startup companies using the latest software, internet, communication, and utilization technology (Helmi et al., 2020). It emerged to simplify all financial activities, where it makes financial activities easier by making people forget about distance because it can reach absolutely anywhere and anyone.

One of the fintech systems or methods that emerge is P2P lending which defined under Article 1 of the Regulation of Financial Services Authority Number 77/POJK.01/2016 on Loan Service to Borrow Money Based on Information Technology ("**POJK No. 77/2016**"), as an implementation of financial service to bring together lenders and borrowers to directly conduct loan agreement in Indonesian Rupiah currency through an electronic system with internet network. P2P lending system is very similar to the concept of marketplace for online lending activities which provides a place to meet buyers and sellers. In the case of P2P lending, the existing system will bring the borrower together with the lender. P2P lending acts as an alternative to get loans, rather than through official institutions such as banks that have a much more complex process (Helmi et al., 2020). It is a hybrid of crowd funding (the pooling of small amounts from many investors) and marketplace lending (Segal, 2015). According to the Financial Services Authority of Indonesia or *Otoritas Jasa Keuangan* ("**OJK**") as quoted by Sayekti (2018), the use of P2P lending in Indonesia continues to grow.

On the other hand, a lot of people still prefer to put their trust in a bank when they want to make a loan. A bank is defined by Law Number 10 of 1998 on The Amendment of Law Number 7 of 1992 on Banking ("**Law No. 10/1998**"), as a business entity that accumulates funds from the people in the form of savings and grants it to the people in a form of credit and/or other forms in order to raise the people's standard of living. Furthermore, a commercial bank is a bank that carries out business activities conventionally and/or based on the Sharia Principles which in its activities provide services in transactions. The main activity of a bank is to collect and distribute funds, one of them is in the form of credit. According to Article 11 of Law No. 10/1998, credit is defined as the provision of money or equivalent claim to money based on a loan agreement between a bank

and another party, obligating the borrowing party to repay his debt after a certain period with interest.

Loans are very important for businesses, particularly for MSMEs or *Usaha Mikro, Kecil, dan Menengah* (UMKM). Hill as quoted by Wuryandani (2018) said that financing is one of the classic problems of MSMEs in Indonesia. Most of the time, getting a loan is needed for MSMEs to expand or even run their businesses. The number of MSMEs in Indonesia is considerably immense. As stated by the Ministry of Cooperatives and Small and Medium Enterprises of Indonesia (n.d.), in 2018, there are 64.194.057 (sixty-four million one hundred ninety-four thousand and fifty-seven) MSMEs in Indonesia. The number means that there are over 60 million MSMEs in Indonesia that may need financing to expand or even to run their businesses. However, the Minister of Cooperatives and Small and Medium Enterprises of Indonesia, Teten Masduki, stated that there are estimated more than 20 million MSMEs that are not bankable (Jelita, 2020). Bankable or bank-worthy is the condition when the debtors have passed the 5Cs of credit analysis (Character, Capacity, Capital, Conditions of Economy, and Collateral) (Kartika et al., 2019). It means there are over 20 million MSMEs that may need financing for their business but are not qualified as bank-worthy, therefore, they are not able to get loans in order to expand or even carry on their business. It is a severe condition knowing by the data provided by the Ministry of Cooperatives and Small and Medium Enterprises of Indonesia, that in 2018, MSMEs are contributing up to Rp8.573,9 trillion (eight trillion five hundred seventy-three and nine billion rupiah) or 57,8% to the gross domestic product (“GDP”) or *Produk Domestik Bruto* (PDB) (Jayani, 2020). Most likely, the numbers have increased up to this year.

The contribution of MSMEs to national income is immense. On that basis, their existence and continuity are extremely important for Indonesia. In order to run and expand their businesses, they need financing. Loans are often the most efficient option to gain financing. The long-existence of commercial banks has made them the first choice for MSMEs to get financing through their loan service. However, not all of the MSMEs are able to get financing through the commercial bank's loan service. It is because they are considered not capable of repaying the debts or they do not have enough assets to be collateralized. It is unfortunate when MSMEs, as the largest contributor to the GDP, do not get the financing they need to run and expand their businesses. On the other hand, the emergence of P2P lending has given MSMEs, particularly the non-bankable MSMEs, an additional option to get loans. It means there are at least 2 options for MSMEs to get financing, i.e. commercial bank's loan service and P2P lending. The authors aim to give an explanation in regards to the commercial bank's credit system and P2P lending in Indonesia, also to analyze the systems in order to deliver a comparative analysis between both of them. Thus, this writing can be useful for whoever reads it, particularly MSMEs in order to help them determine the loan services they preferred between the commercial bank's credit system and P2P lending.

METHODS

This paper used a juridical-normative method where it examines written legal norms, such as research or literature study. The method uses a statutory approach, namely by examining laws and regulations in Indonesia regarding the commercial bank's credit system and P2P lending in Indonesia. This paper also uses a literature review approach. A literature review approach is an approach that describes a theory or findings retrieved from various sources that are used as a reference in solving problems. The sources used by the authors will be based on literature study, i.e. books, articles, papers, documents, Indonesian laws and regulations, and other written sources relating to this writing. The regulations that are used are Law No. 10/1998, POJK No. 77/2016, and other implementing regulations. Furthermore, the typology of the research is descriptive which aims to accurately describe the nature of an individual, condition, symptom or a particular group, or to determine the frequency of a symptom. In this paper, the authors aim to provide a comparative analysis between P2P lending and commercial bank's credit system as a platform for MSMEs to get financing through loans. In results, both bankable and non-bankable MSMEs can have an understanding and preference towards the two loan services so that they are able to choose which loan services that are suitable for their businesses.

RESULTS AND DISCUSSION

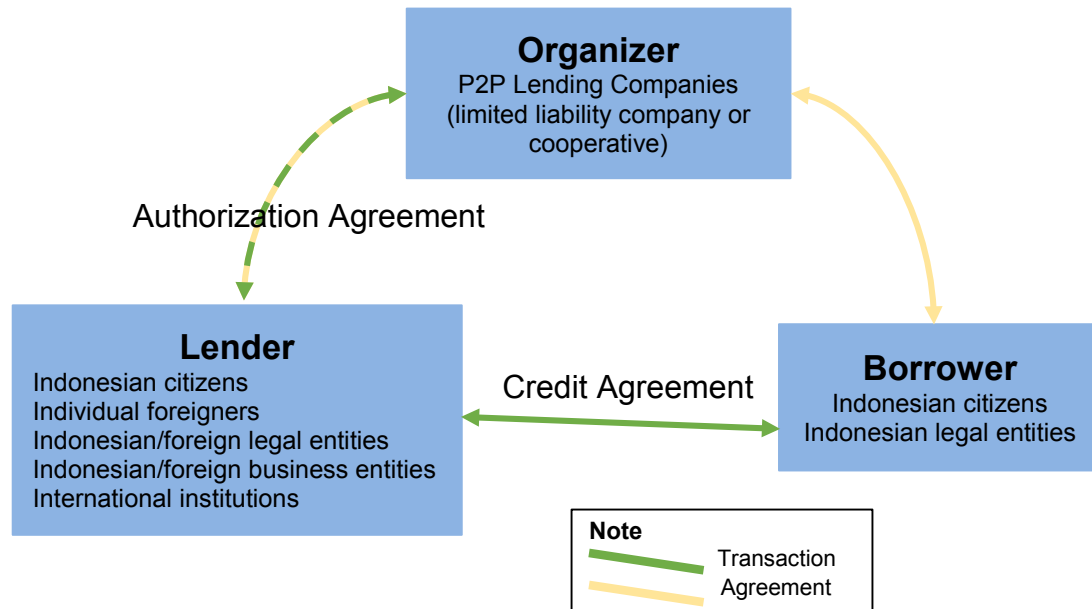
1. P2P Lending and Commercial Bank's Credit System in Indonesia

1.1 P2P Lending

Unlike in conventional lending-borrowing activities, the parties in P2P lending consist not only of borrowers and lenders but also organizers. Pursuant to Article 1 number 6 of POJK No. 77/2016, organizers are defined as Indonesian legal entities that provide, manage, and operate information technology-based lending and borrowing services. It can be said that organizers are the one who provides the digital platform on the internet, usually in the form of a website or an application, for the borrowers and lenders. According to Article 2 and Article 3 of POJK No. 77/2016, the organizer itself must be in the form of a limited liability company or cooperative that can be established and owned by Indonesian citizens, Indonesian legal entities, foreign citizens, or foreign legal entities. However, the maximum foreign share ownership is 85%. The organizer must also have been registered and obtained a license from OJK as stated in Article 7 of POJK No. 77/2016.

As for borrowers, according to Article 15 of POJK No. 77/2016, they could be individual Indonesian citizens or Indonesian legal entities who must originate and be domiciled in the jurisdiction of the Republic of Indonesia. Meanwhile, lenders can be individual Indonesian citizens, individual foreigners, Indonesian or foreign legal entities, Indonesian or foreign business entities, and international institutions as stipulated in Article 16 of POJK No. 77/2016. This is clearly a conscious choice, including allowing foreign investors as well as domestic in line with the hope that the sector can facilitate the inflow of foreign capital (Davis et al., 2017). According to Article 19 of POJK No. 77/2016, there are two agreements in P2P lending, i.e. lender-organizer agreement and lender-borrower agreement. See the following graphic for the illustration of the agreements:

Figure 1: The Agreements in P2P Lending



Generally, in every agreement between the organizer and the lender, there will be one clause where the lender is granting power to the organizer. The power includes all matters relating to the management of the provision and repayment of the loan, such as but not limited to collecting debt from the borrower, executing the guarantees provided if any, distributing interest along with a pro-rata refund to the lenders (Gilbert Hansel, 2018). According to Article 1792 of the Indonesian Civil Code, granting of power is an agreement that contains the granting of power to another person who receives it to carry out something on behalf of the person who gives power. Therefore, basically the agreement is an Authorization Agreement as ruled on Article 1792 of the Indonesian Civil Code. Meanwhile, the agreement between the lender and the borrower is a credit agreement. POJK No. 77/2016 does not give the definition of a credit agreement. However, credit agreement basically comes from loan agreement as regulated on Article 1754 of the Indonesian Civil Code.

As an internet-based platform to get loans, sometimes the safety of the borrowers of P2P lending as consumers are questionable. While it is understandable, the borrowers of P2P lending are included in the definition of consumer as referred in Law Number 8 of 1999 on Consumer Protection (“**Law No. 8/1999**”). Consumer is defined on Article 1 number 2 Law No. 8/1999 as each individual user goods and/or services available in society, for the benefit of them-selves, family members, other people, and other living creatures and which are not for trading. Therefore, P2P lending borrowers as consumers are protected under Law No. 8/1999. Legal protection for the consumers can be done if they carry out their obligations and get their rights equally as consumers. The obligations and the rights are stipulated in Article 5 and Article 4 of Law No. 8/1999. The organizer of P2P lending must also contribute to protect their consumers by carrying out their obligations which is stipulated in Article 7 Law No. 8/1999.

There are additional regulations for the borrowers in P2P lending which contain stipulations that act as legal basis for consumer protection in the fintech industries. The additional stipulations say that:

- 1) The protection can be done by the organizers by applying the basic principles of legal protection for the borrowers. The basic principles according to Article 31 Regulation of Financial Services Authority Number 13/POJK.02/2018 (“**POJK 13/2018**”) and Article 29 POJK 77/2016 are:
 - a. Transparency;
 - b. Fair treatment;
 - c. Reliability;
 - d. Data confidentiality and security; and
 - e. Simple, fast, and affordable dispute resolution.
- 2) In conducting electronic transactions, the parties must act in good faith. It is regulated in Article 3 and Article 17 Subsection 3 Law No. 11 of 2008 on Electronic Information and Transaction which has been amended by Law No. 19 of 2016 (“**Law No. 11/2008**”).

P2P lending is supervised, regulated, and managed by OJK. However, in order to assist OJK in managing P2P lending, OJK has appointed Indonesia Fintech Lending Association or *Asosiasi Fintech Pendanaan Bersama Indonesia* (“**AFPI**”) as a strategic partner through Letter Number S-5/D/05/IKNB/2019. AFPI is an association that accommodates all organizers in P2P lending. AFPI has issued Decree of the AFPI Management Number 002/SK/COC/INT/IV/2020 on the Stipulation of Special Rules for the AFPI Code of Conduct in 2020 that has The Code of Conduct for Providing Responsible Information Technology-Based Lending Services (“**Code of Conduct**”) as its attachment. The Code of Conduct contains additional rules that have not been accommodated in POJK No. 77/2016 and are binding for the organizers (Khoirunisa et al., 2020). The Code of Conduct is binding because Article 48 of POJK No. 77/2016 stated that every P2P lending organizer must be registered as a member of an association appointed by the OJK, in which OJK appointed AFPI through Letter S-5/D.05/2019.

One of the additional rules in the Code of Conduct that have not been accommodated in POJK No. 77/2016 is regarding the interest rate. The provisions regarding the interest rate for P2P lending are contained in Section III Subsection 1 of the Code of Conduct that goes on to say:

- 1) The stipulation of the total amount of interest, lending fee, and other fees (other than late fee) do not exceed the flat interest rate of 0.8% per day, which is calculated from the actual loan amount received by the borrower;
- 2) The stipulation of the total late fee rate (either in the form of a penalty or otherwise) does not exceed 0.8% per day, calculated from the actual amount received by the borrower;

- 3) For loans with a maturity of up to 24 (twenty-four) months, the stipulation of the total amount of interest, lending fee, late fee, and other fees is determined at a maximum of 100% of the principal value of the loan;
- 4) For loans with a maturity of more than 24 (twenty-four) months, the stipulation of the total amount of interest, lending fee, late fee, and other fees per annum is determined at a maximum of 100% of the principal value of the loan.

POJK No. 77/2016 together with the Code of Conduct regulate the operation of P2P lending in Indonesia by involving at least 3 main parties, i.e. the lender, the borrower, and the organizer. Besides acting as an alternative investment for the lenders, P2P lending is conducted to fulfill the financial needs of the borrowers, particularly MSMEs.

1.1.1 The Lending Process

The process is often the reason why people choose P2P lending over bank credit facilities. Rahajeng Anindya Setyoko (2017) has made a study on a P2P lending company on the lending process, which goes on to describe the lending process for the borrowers as follows:

1) Online registration

Borrowers must become a member of the organizer platform and fill out the application form to apply for a loan.

2) Pre-approval

The organizer will conduct an assessment of creditworthiness based on the uploaded form, which will determine the interest rate that will be borne by borrowers later and will determine the percentage of protection funds that will be obtained by lenders. Protection funds are funds provided by the organizer to minimize lenders' capital if there is a default (Putri, Anggoro, & Angelina, 2018). These funds come from the organizers' monthly profit allowance. In this pre-approval stage, credit analysis is carried out by organizers by implementing the 5Cs of credit analysis in providing credit. As part of the assessment process, most of the P2P lending organizers are using E-KYC (Electronic Know Your Customer) as ordered by Regulation of Financial Services Authority Number 12/POJK.01/2017 on the Implementation of Anti-Money Laundering and Terrorism Financing Prevention in the Financial Services Sector which has been amended by Regulation of Financial Services Authority Number 23/POJK.01/2019 (“**POJK 12/2017**”). The Know Your Customer Principle is one of the implementations of the Precautionary Principle by verifying the identity of prospective customers. The principle is implemented to avoid the usage of the financial system as a tool for money laundering (Rozali, 2011). At first, it was being implemented for banks, until OJK issued POJK 12/2017. Article 17 of the regulation stipulated that the verifying of the identity of the prospective customers can be done in 2 ways, i.e. face to face or through an electronic facility. The Know Your Customer Principle is one of the implementations of the Precautionary Principle by verifying

the identity of prospective customers. The principle is implemented to avoid the usage of the financial system as a tool for money laundering (Rozali, 2011).

- 3) Upload of documents required by the borrower for the lender's consideration
- 4) The funding process starts

Credit applications by borrowers will enter the marketplace in the form of "loan information" and borrowers can make an offer to prospective lenders who are also members of the marketplace.

- 5) Credit disbursement

When lenders have agreed to fund a credit offer from a prospective borrower on the marketplace and the credit offer has been 100% funded or at least 80% funded until the specified time limit, the credit disbursement process can be carried out. The money will be transferred to the borrowers' bank account by the organizer.

1.2 Commercial Bank's Credit System

Banks act as an intermediary between parties with a surplus of funds and parties with a deficit of funds. Bank as an intermediary concentrated its business on distributing credit between parties. Furthermore, banks as an intermediary can also be used to measure the level of banking efficiency, where bank efficiency is one of the indicators to analyze the performance of a bank and also as a means to increase the effectiveness of the monetary policy (Siringoringo, 2017). The intermediary role held by a bank is very fundamental for the people. It connects and helps two groups of people as mentioned above through their services, particularly in granting credit.

There are two types of business runs by a bank, i.e. credit and non-credit. Credit is defined by Law No. 10/1998 as a provision of money or bills that can be compared with it, based on approval or loan agreements between banks and other parties which oblige the borrower to pay off the debt plus interest after a certain time. To simplify, the definition of credit is a distribution of funds from parties with a surplus of funds to parties with a deficit of funds. In essence, credit is a service for people to fulfill their needs. In this case, the people include individuals, entrepreneurs, or institutions that need funds for their respective purposes. The credit helps the people in fulfilling their needs through funds distribution provided by the bank.

Banks use public funds that are entrusted to them in conducting their businesses. Granting credit is a bank's main business which contains risks that have the possibility to affect the bank's business. As a result, in its implementation, banks must hold on to credit principles and maintain the interests and trust of the people. In order to implement the provision of credit consistently and based on credit principles, a written regulation is required. In this regard, *Otoritas Jasa Keuangan* ("OJK") or Financial Services Authority has established regulation regarding the obligations of commercial banks to have and implement bank's credit or financing policies in the Regulation of

Financial Services Authority Number 42/POJK.03/2017 on Obligations of Arranging and Implementing Credit Policies or Bank Financing For commercial banks (“**POJK No. 42/2017**”). Based on the regulation mentioned, commercial banks are required to arrange and implement bank’s credit or financing policies which at least contains and regulates the following main points:

- 1) Prudential principles in credit or financing;
- 2) Credit or financing organization and management;
- 3) Credit or financing approval policy;
- 4) Credit or financing documentation and administration;
- 5) Credit or financing supervision; and
- 6) Completion of non-performing loans.

Furthermore, Article 8 subsection (2) of Law No. 10/1998 says that commercial banks are required to have and implement guidelines for credit, in accordance with the provisions stipulated by Bank Indonesia. Afterward, the explanation of the article says the main provisions stipulated by Bank Indonesia are as follows:

- 1) Credit granting or financing which based on Sharia Principles is made in the form of a written agreement;
- 2) Banks must have the confidence in the ability and capability of the debtors, which among others is obtained from a careful assessment of the character, ability, capital, collateral, and business prospects of the debtors;
- 3) Banks have the obligation to arrange and establish procedures for granting credit based on Sharia Principles;
- 4) Banks have the obligation to provide clear information regarding procedures and terms of credit based on Sharia Principles;
- 5) Banks are prohibited to provide credit based on Sharia Principles with different requirements to the debtors and/or the affiliated parties;
- 6) Dispute resolution.

Commercial banks are required to comply with the bank's credit or financing policies that have been arranged in the regulations in a consequent and consistent manner. If commercial banks do not comply with the bank's credit or financing policies, they will be subject to administrative sanctions that affect the assessment of the bank’s performance, other administrative sanctions, and even the bank’s management may be subject to criminal liability.

As well as the borrowers of P2P lending, commercial banks' borrowers are also protected under Law No. 8/1999. Legal protection for the borrowers as consumers can be done if they carry out their obligations and get their rights equally as consumers. Borrowers have to carry out their obligations as stipulated in Article 5 of Law No. 8/1999 and can enforce their rights as stipulated in Article 4 of Law No. 8/1999. Besides the borrowers, commercial banks must also carry out their obligations which is stipulated in Article 7 Law No. 8/1999 in order to protect their borrowers.

1.2.1 The Process of Granting Credit

Getting a credit facility from banks has so many requirements to comply and the process itself is also not easy and quite long. According to Hermansyah (2011), these are the process to get a credit facility from banks:

1) Application submission to the desired bank along with the required documents.

If the application is submitted by a company, it must include the company profile, the purpose and benefits of credit, the amount of credit and period of credit repayment, how to return credit, and the collateral or credit guarantees. The application is also attached with the required supporting documents, namely:

- a. Deed of Incorporation;
- b. *Kartu Tanda Pengenal* or Identity Card (“**KTP**”) of the management;
- c. *Tanda Daftar Perusahaan* or Company Registration Certificate (“**TDP**”);
- d. *Nomor Pokok Wajib Pajak* or Taxpayer Identification Number (“**NPWP**”);
- e. Balance sheet and income statement for the last 3 years;
- f. Photocopy of certificate of the collateralized assets.

Meanwhile, if the application is submitted by an individual, it must include the purpose and benefits of credit, the amount of credit and period of credit repayment, how to return credit, and the collateral or credit guarantees if needed. The application is also completed by attaching all required supporting documents such as a photocopy of *KTP*, *Kartu Keluarga* or Family Card (“**KK**”), and salary slip. The application also has to be signed by such an individual as the prospective borrower.

2) In-depth and detailed study of the credit application file that has been submitted.

If the result shows that the bank believes that the application is complete and meets the requirements, the bank will carry out the next stage which is the creditworthiness assessment. Meanwhile, if it turns out that the submitted credit application is not complete and does not meet the specified requirements, the bank will ask the prospective borrower to complete the credit application.

3) Creditworthiness assessment.

There are several aspects that will be considered related to assessment activities by the banks. Usually, the assessment is based on the credit principle, such as the 5 Cs of credit analysis in providing credit. However, there are some additional aspects if the application is submitted by a company, including:

- a. Legal Aspects

To assess the validity and legality of the credit term documents, where incomplete and inaccurate credit terms documents will create problems that may harm creditors.

b. Market and Marketing Aspects

To assess whether the marketed product is a promising product in the market, and how the marketing strategy will be carried out by the company.

c. Financial aspect

To assess the company's finances as seen from the company's financial statements.

d. Technical or Operational Aspects

To assess the problem of the business location and the completeness of the facilities and infrastructure owned, including the layout of the buildings and rooms.

e. Management Aspects

To assess how the company runs, the human resources the company has, and the company's plans for business development.

f. Socio-Economic Aspects

To assess the impact of the business, especially for the wider community, both economically and socially. Does it provide positive economic and social impacts, such as empowering the surrounding community for the company's workforce so that it can provide income for the community.

g. Aspect of *Analisis Mengenai Dampak Lingkungan* or Environmental Impact Analysis (“AMDAL”)

To assess whether the business has met the criteria for AMDAL on the surrounding land, water, and air.

As mentioned above, one of the requirements to get loans from commercial banks is collateralized assets. The existence of collateral is related to the principle of prudence in granting a credit facility. Article 1 number 23 of Law No. 10/1998 defined collateral as an additional guarantee submitted by the debtors to the banks in the framework of providing credit facilities. According to Kartono, collateral, as a requirement in getting a credit facility, is an attempt by a creditor to strengthen their position as a creditor in the sense of obtaining stronger guarantees, even though the rights of creditors are generally guaranteed by the existing and future assets of debtors in accordance with the provisions of Article 1131 and 1132 of the Indonesian Civil Code (Saija & Letsoin, 2016). Collateral is a prerequisite for minimizing the risk of creditors in lending. Credits are always secured with collateral to avoid the risk of the debtor not paying their debt, in which if the debtor is unable to repay their debt, the creditor can sell or cover the debt from the sale of the collateral.

Additionally, the bank will also conduct an assessment towards the prospective borrowers by getting information about them through the Financial Information Services System or *Sistem Layanan Informasi Keuangan* (“SLIK”) or the Credit Information Management Institution or *Lembaga Pengelola Informasi Perkreditan* (“LPIP”) which has been regulated by Regulation of Financial Services Authority Number 18/POJK.03/2017 on Debtors Information Report and Request Through SLIK (“**POJK 18/2017**”) and Regulation of Financial Services Authority Number 42/POJK.03/2019 on LPIP (“**POJK 42/2019**”). The purpose of such assessment is

intended to maintain the bank's health by mitigating the risk of a non-performing loan by the prospective borrowers (Sumarna and Suparman, 2019).

After the assessment is conducted, an approved credit application results in a credit agreement between the banks and the borrowers. The term '*credit agreement*' is not actually recognized in Law No. 10/1998 itself. However, the definition of credit given in Article 1 number 11 Law No. 10/1998 includes the word '*agreement of lending and borrowing*'. These words emphasize that the credit relationship is a contractual relationship in the form of a loan agreement.

1.2.2 Non-Collateral Credit or *Kredit Tanpa Agunan* ("KTA")

Besides the explained loan service above, commercial banks also provide KTA as an alternative for SMEs who are in need of large capital to develop their business or for consumptive needs but do not have assets to be collateralized to get loans. This facility does not require a collateral, therefore, the debtors do not need to provide collateral in order to get loans. It is regulated in Law Number 7 of 1992 on Banking ("**Law No. 7/1992**") and Law No. 10/1998, however, these laws do not specifically regulate KTA.

According to Article 8 Subsection (1) of Law No. 10/1998, in providing credit, commercial banks are required to have the confidence that based on in-depth analysis of their intentions and abilities as well the capability of the debtors to repay their debts as agreed. Furthermore, Article 1 Number 23 of the same regulation defined collateral as an additional guarantee submitted by the debtors to the banks in the framework of providing credit facilities. It means that collateral is an additional guarantee in the form of assets which belongs to the debtors or it can be called a property guarantee which is not the main thing in granting credit, but based on an in-depth analysis of the debtor's intention, ability, and capability to repay the debts as agreed. Collateral is a supporting element, not the main element in granting credit. This means, KTA agreement does not require additional guarantees or collateral but still requires the main guarantee, which is confidence based on an in-depth analysis of the debtor's intention, ability, and capability to repay the debts as agreed. To gain confidence, banks must carry out a thorough credit assessment. Credit assessment of the prospective debtors generally uses five assessment principles or commonly known as the five C's of credit analysis namely, Character, Capacity, Capital, Condition of economy, and Collateral (Widyasari, 2018). Apart from these five credit assessment principles, basically granting credit is guided by two principles, namely the principle of trust and the principle of prudence (Hermansyah, 2005). Basically, KTA assessment is almost the same as a regular credit assessment. The difference lies in the assessment regarding collateral or guarantees which are more immaterial rather than material, also the assessment of character and capital for KTA is more selective and thorough.

However, there is a provision that seems like negating KTA. Article 1131 of the Indonesian Civil Code which discusses privileged accounts receivable says that all movable and immovable property belonging to the debtor, both already exist and will exist, becomes collateral in the debtor's agreements. Therefore, there is no collateral set by the bank in KTA, so if at any time the debtor defaults, then based on Article 1131 of the Indonesian Civil Code, all assets belonging to

the debtor will be executed. It means, there is not much difference between KTA and regular credit, both of the facilities basically have collateral, but the main difference between both of them is KTA does not need collateral in the first place as one of the requirements for the debtors to get loans.

1.2.3 The People's Business Credit or *Kredit Usaha Rakyat* ("KUR")

The existence of KUR is the embodiment of credit for MSMEs. According to Sujarweni (2015), KUR is a credit/financing in the form of working capital and/or investment aimed for MSMEs and cooperatives in the productive and feasible business sector but not yet bankable with a loan up to Rp500.000.000 (five hundred million rupiah) guaranteed by the guarantor companies. 70% of the guarantee comes from the government and the remaining 30% is borne by the bank concerned. According to Santoso (2017), there are some characteristics of credit for MSMEs, which explained below :

- 1) Requires more lenient conditions for the submission of collateral
- 2) Requires special monitoring method
Usually MSMEs have limitations in administrative ability, reporting, and planning. These limitations forced banks to have alternative methods to monitor MSMEs.
- 3) Tend to result in relatively higher credit service costs
The 2 characteristics above causing the credit service costs relatively higher.
- 4) Requires more simple conditions for credit approval
The limitation of information access and education access for the prospective borrowers (MSMEs), also relatively higher credit service costs causing a more simple credit approval.

Based on Article 5 Subsection (1) of the Minister of Finance Regulation Number 10/PMK.05/2009 on People's Business Credit Guarantee Facility, MSMEs and cooperatives that can receive guarantee facilities are productive businesses that are feasible but not yet bankable with the following conditions:

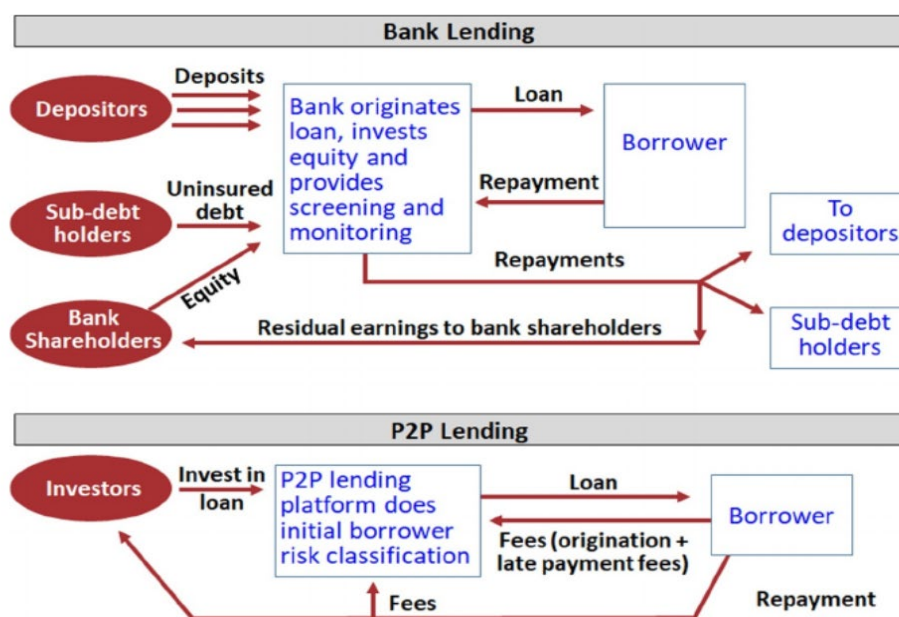
- 1) The MSMEs and cooperatives are new borrowers who have never received credit from a bank;
- 2) Guarantee facilities can be given to borrowers who have never received credit from other programs;
- 3) The KUR agreement is agreed between the bank concerned and the MSMEs and cooperatives.

Besides KTA, KUR also acts as an alternative loan service for MSMEs, particularly non-bankable MSMEs. It still needs collateral, but there is a simplification for credit approval. Hence, it is helpful for MSMEs, although the loan service costs are relatively higher than the regular loan service provided by the commercial banks.

2. Comparison Between P2P Lending and Commercial Bank's Credit System in Indonesia

Financial technological development almost dominates the entire financial life of the people. It makes it easier and more efficient for the people to have their financial needs completed only by accessing it through their gadgets. This technological emergence, makes people shift their preference from an offline financial service to an online service. In this case, P2P lending presents as a new platform of financial transaction that passes a series of conventional intermediaries by directly connecting borrowers and lenders (Yum, 2012). Almost all interactions between a lender and a borrower occur through a website interface where the borrower submits a loan request and the lender chooses to fund that request or not (Larrimore et al., 2011). However, the presence of the banks for all this time and the services they have provided especially in granting credit will not easily be ruled out by the emergence of P2P lending. The banks have gained people’s trust in them and it will not be easily ruled out for just efficiency reasons. There are several differences between the commercial bank’s credit system and P2P lending that lead to people’s preference. Firstly, the primary difference between the two systems is the mechanism. To provide a clear picture of the differences, Thakor (2020) has made a comparison figure of the mechanism between the two systems, as you can see below:

Figure 2: Lending Scheme in Bank vs P2P Lending Organizers



Source: Thakor (2020)

Moreover, Feng et al. (2015) have made a brief comparison between the traditional loan financing market (commercial bank’s credit system) and the lending market (P2P lending) as described below:

Table 1: The Traditional Loan Financing vs Lending Market

Major Aspect	Traditional Loan Financing (Bank's Credit System)	P2P lending
Interest Rate	Low-medium	Medium-high
Loan Amount	High	Low
Collateral	Yes (except for KTA)	No
The Party	Borrower and Bank	Borrower, Lender, Organizer
Process	Complex and long	Simple and fast
Risk	Low	High
Transaction Cost	High	Low

Source: Feng et al. (2015)

In relation to the high interest rate, Tjandra (2020) stated that it is affected by the ease in providing loans, high risk for the lenders, and no need of collateral as part of the transactions. Those 3 factors most likely are the reason for the high interest rate in P2P lending.

In relation to the process, as one of the fintech products, P2P lending exists to answer the problem of public financial access to conventional financial institutions (banks). Previously, dealing with banks was quite complicated and time-consuming. Therefore, fintech offers convenience and speed in the process of public financial transactions, particularly in lending-borrowing services (Saksonova et al., 2017). Yudha (2018) stated that the escalation in P2P lending loan distribution was due to the ease of conditions, flexible guarantees, and the speed of service time for the borrowers to obtain loans through P2P lending at competitive interest rates. The average time for disbursement of loan funds is between 2-3 days. This condition is different when compared to the process of borrowing funds in banks which has complicated requirements with time-consuming disbursement of funds.

In relation to the risk, in P2P lending the risk is high for the investors or the lenders. Haewon et al. (2012) and Giudici (2018) explain that there is no risk-free investment, including investment in P2P lending. It is because in P2P lending, a non-performing loan is fully covered by the lenders, not the organizer. In contrast to the banking system which will be covered by the bank. According

to Pokorna and Sponer (2016), the greatest risk that must be borne by lenders is in the event of a non-performing loan by the borrower.

From Table 1 and the explanation above, P2P lending provides convenience for the borrowers by obtaining loans at lower amounts without collateral. At the same time, lenders can get a higher return on investment (Magee, 2011). Using fintech, P2P lending can improve financial efficiency at low costs (Anikina et al, 2016; Koffi, 2016; Vlasov, 2017).

The differences between the two eventually resulted in several advantages and disadvantages of each system. According to Milne and Parboteeah (2016), the competitive advantages of P2P lending can be grouped into four categories:

- 1) A better rate of return offer than the rate available in bank deposit together with a relatively low fee for borrowers;
- 2) Granting credit to some categories of borrowers that are unable to access bank lending;
- 3) A perception that P2P lending is more responsible and having greater social value than the conventional banks (which is a part of the commercial banks); and
- 4) A technical innovation that improves the quality and speed of service to both borrowers and lenders.

As a system that offers efficiency for those who need funds, P2P lending also has its disadvantages. According to Walter Pinem (n.d.) in one of the P2P Lending organizers' (Koinworks) website, these are the disadvantages of P2P lending for the borrower:

- 1) P2P lending interest rate can soar up when the borrower's creditworthiness falls or when the borrower pays late;
- 2) There is a possibility that the loan fund needs cannot be fulfilled in full and the funds that have been collected will be returned to the lenders.

On the other hand, banks have always been the most common source for getting a loan. However, with many sources to choose from, some people still choose to borrow money from the bank because of its advantages. According to Jonathan (n.d.) in Koinworks' website, these are the advantages and disadvantages of the Commercial Bank's Credit System, including:

- 1) Various types of credit facilities;
There are many credit facilities that can be accessed by the prospective borrower. Each credit facility offers different advantages and disadvantages so that the prospective borrower only has to adjust which one is the most suitable for their needs.
- 2) Generally, credit facility for micro-businesses have lower interest rates compared to credit facility for consumptive needs;
- 3) The bank is fully responsible for the security of the collateral.

While there are advantages as explained above, there are also some disadvantages that can be considered by prospective borrowers, such as:

- 1) Complicated process: Generally, the process of getting credit facilities from banks is convoluted. After receiving the credit application form, the bank will verify then conduct a survey of the business being carried out, re-carry out verification, and several other troublesome procedures.
- 2) Time-consuming: With the convoluted process, it takes days even weeks to get the approval for the credit facility.
- 3) In practice, there is a priority for customers who have applied for credit facilities before. Customers who are currently in the repayment period from the previous credit facility will find it easier to apply for new credit while new customers usually have to be willing to follow various troublesome procedures because they are considered high risk;
- 4) If the borrower fails to pay off the loan, the collateral will be confiscated by the bank: Not getting the amount as needed because the bank will provide credit in accordance with the proposed collateralized asset value. In this case, when the collateralized asset estimated value turns out to be lower than the amount needed by the borrower, it means that the borrower must be willing to look for additional sources.

Briefly, P2P lending relatively brings benefits to the parties involved in it, in this case specifically MSMEs. As for the borrowers, the benefits include encouraging financial inclusion, providing loan alternatives for non-bankable borrowers, the process is easy and fast, and the existing competition has led to a competitive interest rate (Bank Indonesia, 2017). Moreover, there are other things that differentiate P2P lending from commercial bank's credit system. Unlike most of the credit facilities provided by banks, in P2P lending, collateral is not required as a condition. Hence, it is considered really helpful for MSMEs, particularly non-bankable MSMEs, to get financing through P2P lending because of the efficiency of the process, low transaction costs, and it does not require collateral as a condition. It means, as long as the MSMEs are qualified as creditworthy, then they are able to get loans through P2P lending. Creditworthy is a condition when the debtors have good ability to repay the credit, but have not met the qualifications of the 5Cs of credit analysis (Kartika et al., 2019). However, there is a possibility that the interest rate will increase during the loan period if the borrower's creditworthiness falls or when the borrower pays late.

Meanwhile, although commercial banks have a complicated and time-consuming process, their interest rates are lower than in P2P lending. Yes, the complicated process of obtaining a loan from commercial banks sometimes is considered unfriendly for MSMEs, especially the non-bankable ones. However, the long-existence of commercial banks has earned people's trust and because of that, in terms of granting credit, it will be difficult for P2P lending to replace commercial banks.

CONCLUSION

Borrowing money from both banks and P2P lending companies has its own advantages and disadvantages. These advantages and disadvantages are the reasons why each prospective borrower chooses their preferred platform. Commercial banks that have been around for a long

time, is still the preferred platform for most of the MSMEs because it is more trusted and they have relied on banks for decades. However, the emergence of P2P lending has indeed added to the options for MSMEs to choose the best platform to borrow money for their respective needs. With a simple and fast process to get loans, P2P lending is considered friendlier to MSMEs than banks. Although the interest rates are higher, P2P lending provides convenience for the borrowers by obtaining loans at lower amounts without collateral. At the same time, lenders can get a higher return on investment. Using fintech, P2P lending can improve financial efficiency at low costs. P2P lending acts as an alternative option for MSMEs, particularly non-bankable MSMEs, to get financing through loans. But keep in mind that banks still have advantages that P2P lending does not have and vice versa. With each having its own advantages and disadvantages, the existence of P2P lending companies has not replaced banks. Clearly, it becomes each of the MSMEs' own preference to choose which platform with their own consideration.

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