THE ROLE OF PEER TO PEER LENDING IN FINTECH TOWARDS FINANCIAL INCLUSION IN INDONESIA

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ABSTRACT

The rapid development of technology has impacted people's lifestyles, mainly dominated by information technology users and the demands of an increasingly fast-paced world. FinTech is a financial sector innovation that utilizes modern technology. Financial inclusion in Indonesia has surpassed the 75 percent target, according to data from the Financial Services Authority (OJK) gleaned from the results of the third National Financial Literacy Survey (SNLIK) conducted in 2019. The Indonesian government has set a 2024 deadline for achieving a 90 percent financial inclusion rate. Financial inclusion in Indonesia is the goal of this study, which examines the impact of FinTech on peer-to-peer lending services. Qualitative descriptive analysis and data collection techniques are used to provide an overview of the research results in this method. According to a new study, peer-to-peer lending in fintech can help low-income groups access financing, allowing them to grow their businesses. They are, however, constrained by a lack of formal funding. Many FinTech companies have made loans available to people from all walks of life, regardless of their financial situation. Financial inclusion will be more pronounced as a result of FinTech's presence..

Keywords: Fintech, Peer to Peer Lending, Lending

1. INTRODUCTION

Financial services have been transformed throughout the world by the rise of Financial Technology (Fintech). FinTech is an economic sector innovation that utilizes modern technology. FinTech is often thought of as a blend of financial services and information technology. The fintech revolution driven by startup companies is changing the landscape of the Financial Services Sector with innovative business models, products and financial services. Fintech has several advantages that can be offered to developing countries because it can help expand greater financial access for residents and businesses that are underserved by formal financial institutions. Increasingly, people's lifestyles are being shaped by technology and the pressures of a fast-paced, information-driven world, which has given rise to fintech. To put it another way, fintech can make lending and borrowing, purchasing and selling, and payment transactions more effective, efficient, and cost-effective (Fisabilillah & Hanifa, 2021). The rise of fintech is expected to alleviate the community's financial woes. One of the keys to development in the current era of digitalization is community openness to financial access or financial inclusion (Marginingsih, 2021). Currently, there are three financial institutions that provide access to financial services for the poor, namely: Perum Pegadaian; cooperative; and other microfinance institutions. Access to formal financial services is now recognized as one of the important factors supporting poverty alleviation efforts in many countries. Common forms of fintech services in Indonesia include payment systems, peer-to-peer lending that provides access to financing, investment management, market provisioning, and equity crowdfunding.

Regulator Bank Indonesia No. 19/12/PBI/2017 on FinTech implementation states that FinTech is a systematic technology user in the financial sector that creates new service products, technologies or business models and may also affect monetary and financial stability conditions as efficiency, smoothness, security, and reliability of the payment system Peer-to-peer lending is just one of many Fintech services and products available to the general public. Using this platform, parties in need of funds can be connected to parties in need of capital or investment. Peer-to-peer lending, also known as P2P lending, can be viewed as public lending. Fintech has the potential to contribute to financial stability and financial inclusion, whether the funds come from the community or the company that built the platform (Marginingsih, 2021). It is defined as a situation where most people can benefit from the financial services available and minimise the presence of those who are unaware of the financial benefits through easy access without the high costs. Global Financial Development Report (2014) defines financial inclusion (Kusuma, 2020).

Financial services are not widely available to the poor and vulnerable, particularly in developing countries. As of 2017, the following can be said about Southeast Asia, based on data gathered from various sources:

Table 1.

Access (Number of commercial bank branches per 100,000 adults)

Country	**011**	**014**	**017**
Brunei Darussalam	3.17	0.36	8.48
Cambodia	.28	.69	.52

Indonesia	4.71	7.83	6.75
Lao PDR	.55	.88	.09
Malaysia	1.25	0.81	0.23
Myanmar	.68	.39	.70
Philippines	.66	.62	.99
Singapore	.60	.01	.22
Thailand	1.34	2.52	1.86
Vietnam	.54	.83	.45

Source: World Bank

Table 2.

Quality (Main source of emergency funds: savings (% able to raise funds, age 15+)

Country	**014**	**017**
Brunei Darussalam		6
Cambodia		9
Indonesia		2
Lao PDR		6
Malaysia		
Myanmar		8
Philippines		8
Singapore		0
Thailand		4
Vietnam		6

Source: Global Findex Database

Table 3.

Usage (Account of Age 15+ %)

Country	**011**	**014**	**017**
Brunei Darussalam		2	2

Cambodia	0	6	9
Indonesia	7		9
Lao PDR	6	1	5
Malaysia		3	6
Myanmar	7	1	4
Philippines	8	6	8
Singapore	3	8	2
Thailand	1	1	1
Vietnam		2	2

Source: Global Findex Database by World Bank

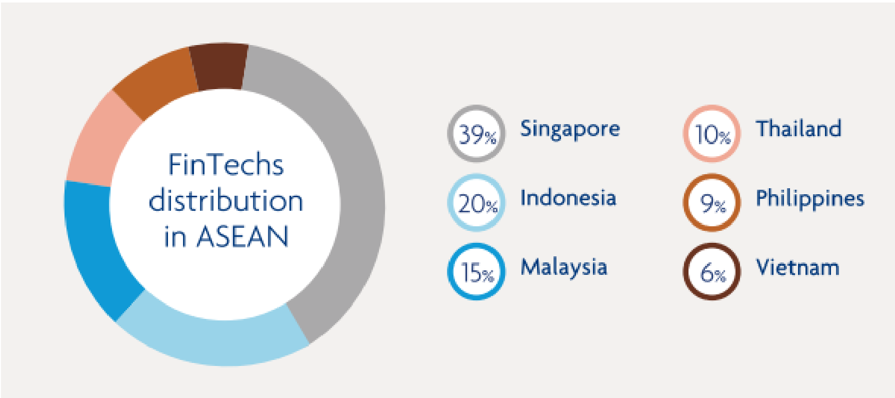


Figure 1.

FinTech Distribution in Asean 2016

At 39 percent, Singapore has the highest percentage of FinTech in ASEAN, according to Tracxn. Singapore's growing financial infrastructure and supportive regulatory policies have put the country in a solid position to compete with other FinTech hubs around the globe. Indonesia, Malaysia, and Thailand are catching up to Singapore as the FinTech home of choice because of high mobile adoption rates, increasing internet penetration, and an increasingly urbanized and literate population. Because of this, a slew of investors and FinTechs have turned their attention to it.

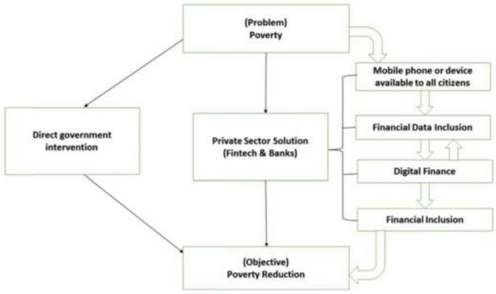
According to Findexable, Indonesia is ranked 47th out of 65. It is rated below Singapore, Malaysia, Thailand, and the Philippines, but it can outperform those countries. Jakarta, Indonesia's capital city, is the 12th most populous in the Asia Pacific region, trailing only Singapore, the region's second-largest city. For example, financial inclusion is a significant policy issue in several countries, according to research by Pearce (2011). An essential part of a country's financial infrastructure is built upon the foundation of financial inclusion, leading to economic growth and development (Sharma, 2016). Ten Asian countries have shown that financial inclusion has had a limited impact on economic growth; poverty alleviation; income inequality; and financial stability (Ratnawati, 2020). To help close the gap in financial inclusion, digital financial services can play an important role. They can meet about 40% of the unmet payment service demand volume and 20% of the unmet credit needs in the BoP and MSME segments. To close the gap in financial inclusion, digital finance is not sufficient. Increasing digital financial inclusion, according to ADB, could raise GDP by 2 percent to 3 percent in countries like Indonesia and the Philippines and by 6 percent in Cambodia. Indonesia and the Philippines would see a 10% increase in income, while Cambodia would see a 30% increase in revenue for those making less than $2 per day. This is according to (ADB, 2017).

Due to lower levels of financial inclusion than the regional average (49 percent of the population aged 15 and over), Indonesia has significant room for customer growth. Twenty percent of the fintech in seven ASEAN markets is currently based in Indonesia, with a thriving fintech ecosystem. Financial inclusion in Indonesia has surpassed the 75 percent target, according to data from the Financial Services Authority (OJK) gleaned from the results of the third National Financial Literacy Survey (SNLIK) conducted in 2019. The government of Indonesia has set a goal of achieving 90% financial inclusion by 2024. This study aims to examine the impact of fintech on peer-to-peer lending services in Indonesia in light of the background information provided above.

2. METHOD

This method utilizes qualitative descriptive analysis to provide an overall picture of the research findings, generating written or spoken words from individuals and observed behaviors. The researcher used a literature review to gather the data to look up relevant references in books, journal articles, and other online sources.

Based on research conducted by Ozili (2018), the following framework is produced:



Governments, FinTechs, and banks all play an essential role in promoting financial inclusion and reducing poverty. Although there is currently no clear theoretical framework for distinguishing between financial inclusion and financial inclusion, the basic idea of the framework is that digital finance requires comprehensive financial inclusion to realize the potential of financial inclusion fully. An inclusion strategy based on the principles of efficiency and transparency was proposed by Ambarkhane and colleagues (2016), which they believe can lead to profitable business opportunities. Low-cost structures and support networks for the poor are needed as other supportive measures to help the poor.

3. RESULT AND DISCUSSION

Peer to peer lending at fintech in Indonesia

Theoretically, the term "financial technology" is an acronym for "financial technology" and "technology in finance." The financial system plays a critical role in facilitating funds transfer from surplus parties to those in need (Matthews, Giuliodori, & Mishkin, 2013). Fintech's innovations improve productivity and efficiency at work while positively affecting society. First and foremost, Fintech enables them to offer lower-cost loans or better products to their customers. Second, consumer feedback indicates that Fintech can save money by reducing the need for office space and staff while also providing a higher comfort level. Lenders in the Asia Pacific Economic Cooperation (APEC) economy may better screen potential borrowers by using alternative sources of information and practical data approaches inherent in technology-based lending. Fintech boosts revenue and productivity, reduces price volatility, and reduces the gap between the rich and the poor. There is a direct correlation between financial technology adoption and economic growth, productivity improvement, price volatility, and income inequality.

In comparison to other forms of electronic payment, electronic payments have a much higher rate of adoption and lower demand latency, which are both positive indicators of economic development. Business climate and technological openness also play an essential role in the growth of GDP and productivity. The financial sector is one of many economic sectors contributing to overall economic expansion. Four functions of the financial industry benefit the economy: reduce risk, mobilize savings, reduce transaction and information costs, and promote specialization (Levine, 2005). Financial institutions can provide borrowers with a wide range of high-quality, low-risk financial instruments, according to Fabya (2011).

There may be numerous positive effects of the rise of digital finance and FinTech solutions, according to Ozili (2018) and Manyika and colleagues (2016). The following are the macroeconomic consequences:

Access to a wide range of financial products and services for both individuals and small and large businesses will help to boost economic growth. If the informal economy shrinks due to more accessible access to credit, this could help enforce taxation and labor laws. Financial innovations such as P2P lending and new credit scoring methods, and the creation of new businesses like online retailing, have also been shown to affect the economy positively. Improve the global financial system's efficiency and give regulators better tools for monitoring. Increasing tax collection, improving the allocation of government subsidies, and implementing efficiency gains are all ways to reduce government spending. This saves time and money by avoiding traveling to remote branch offices, especially for those living in rural areas. People who do not have bank accounts should access affordable, responsive, and secure banking services.

When people have access to secure money storage and easy money transfers, they are more likely to transact and save more. This encourages basic transactions such as paying bills (electricity, water supply) and sending money (money transfers). Let lenders operate more efficiently while also providing new services like small-payment transfers that aren't always possible with traditional banking. Fintech development positively impacts Indonesia's GDP and stimulates expansion and job creation (Athoillah, 2019). It's easier for people to use their money because of better financial functions and the availability of services (Wildan, 2019). Fanta and Makina (2019), Durai and Stella (2010), and Hutabarat (2018) have found that financial technology has had a positive impact on the financial inclusion of low-income individuals, even though Michelle (2016) claims that financial technology is detrimental to financial inclusion and has little impact on it.

In FinTech, there is P2P lending or peer-to-peer lending. The FinTech business model can serve consumers with differing risk appetites than traditional financial services. FinTech companies, such as P2P lending services, offer opportunities for investors with a slight to high-risk tolerance. An individual with a high-risk profile will only be approved for financing if the lender sees fit. High-risk financiers don't mind lending to a borrower who has the potential to default in the future because of their high-risk appetite. It's impossible to take such a risk, just as it's not possible for a bank. Customers with a low-risk tolerance can benefit from deposit accounts offered by banks. Because all bank loans require collateral, borrowers have a low tolerance for risk.

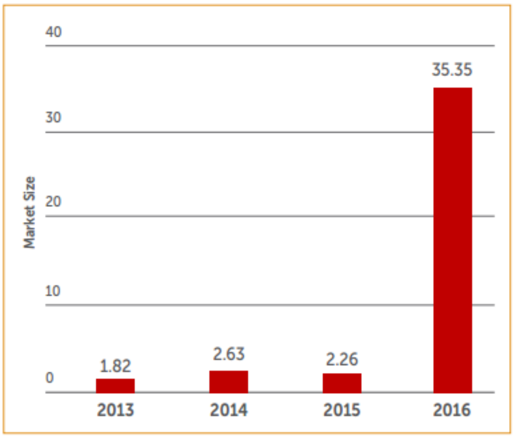


Figure 2
Market Size of FinTech in Indonesia

Financial technology (Fintech) development in Indonesia has been increasing rapidly, peaking in 2016, as seen by an increase in market size of 35.35% in 2016. P2P Lending is a popular FinTech product in Indonesia, where many companies provide it. It reaches people who have never been to a bank or live in rural areas. They help small businesses and individual customers connect with investors. It's easy to get started with FinTech P2P lending services because of their efficient structure. FinTech companies, unlike banks, aren't involved in the actual lending process itself. Matching lenders and borrowers, they bill users for their services. Some countries in which FinTech P2P lending companies are exempt from meeting the minimum capital requirements that can affect the total loan amount, as there are in those countries. Alternative credit models, online data sources, data analysis for risk assessment, faster loan processes, and lower operating costs are all made possible by P2P lending innovations (Financial Services Authority, 2020).

The role of fintech for FinTech financial inclusion in Indonesia

The government issued Presidential Regulation Number 82 of 2016 concerning the National Strategy for Financial Inclusion as a form of government support to increase public financial inclusion to support the government's National Strategy for Indonesian Financial Literacy, in which the President, Bank Indonesia, and the Financial Services Authority collaborate and synergize to make the program a success. Many people still do not have access to modern financial services in Indonesia.

Financial inclusion goals in POJK No.76/POJK.07/2016 includes:

a. Increased public access to financial institutions, products, and services of financial services providers.
b. Increasing PUJK's provision of financial products and services following the community's needs and capabilities.
c. Increased use of financial products and services tailored to the community's needs and capabilities.
d. Improving the quality of financial products and services by tailoring them to the community's needs and abilities.

It includes four elements of financial inclusion, namely, extending financial access, accessing financial products and services, using financial products and services, and improving both the use of financial products and services and the quality of products to increase public access through the Availability of financial products and services (Financial Services Authority, 2016:20). The Financial Services Authority then concluded in the SNLKI, based on the experts' definition of financial inclusion, that the elements that play a role in financial inclusion in Indonesia are as follows:

a. Financial service institutions provide infrastructure to enable the public to access formal financial institutions, products, and services.
b. Availability of financial products and services required by all segments of society so that each segment can benefit from financial products and services tailored to their specific needs. Financial service institutions must provide financial products and services to people at all levels of society in this case. Furthermore, the availability of financial products and services must be tailored to the characteristics and

needs of the community, both in terms of price and accessibility.

c. The public's use of financial products and services is the ultimate goal of financial inclusion, expecting that people will enjoy and benefit from the financial products and services.

d. Quality refers to the ability of financial products and services to provide the most significant benefit to the people who use them. This quality can also be interpreted as the active use by society of financial products and services, which means that financial products and services are "fit" to the community’s needs, resulting in high frequency of use.

Indonesia's financial technology market is distinct from other countries because of its unique characteristics. Because of technological advancements, FinTech can now reach customers who do not have a banking account. Consequently, FinTech in Indonesia has the potential to get an even larger and unbanked population of customers who would otherwise be unable to use banking products and services. FinTech is expected to increase financial integration in Indonesia due to its ability to reach areas where traditional financial institutions cannot (Financial Services Authority, 2020). Consequently, OJK has always considered FinTech a tool, instrument, or platform for increasing Indonesia's financial inclusion efforts. The government's goal of increasing financial inclusion and meeting the needs of all segments of the Indonesian population is nearly impossible to achieve using only conventionally available services. Several digital financial services have emerged due to the development of information technology and the rapid growth of the internet, making it easier for the public to learn and educate themselves about finance and financial services to create financial inclusion (Dewi, 2020).

P2P for Financial Inclusion in Indonesia

P2P lending is one of the most popular fintech services in Indonesia. P2P lending is dominating the Indonesian fintech market structure as fintech in payment services. The Indonesian FinTech Association (Indonesian FinTech Association/Aptech) noted that many FinTech companies engaged in the credit sector began at the end of 2015 and were active in 2016. The growth of FinTech Loans has been increasing since OJK issued Regulation No. 77/POJK.01/2016 concerning Services IT-Based Borrowing and Borrowing and Bank Indonesia Regulation no 19/12/PBI/2017 concerning providers, which regulates consumer protection, administration, governance, and relationships with associations. Once the regulation was enacted, the number of FinTech loans soared. This growth was reflected in the increasing number of loans, including the number of lenders and borrowers.

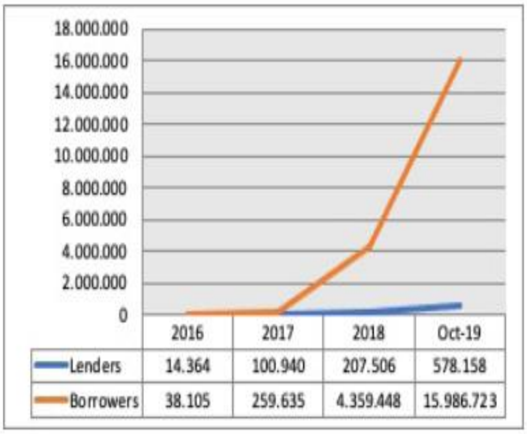


Figure 3
P2P Lenders and Borrowers

Figure 4
P2P Scheme

Peer-to-peer (P2P) lending is depicted in the diagram above. Like banking financial institutions, peer-to-peer works like a P2P Marketplace, bringing together linders or owners of capital (individuals who are investors) and lenders or borrowers of funds (creditors). Fintech lending companies bring together foreign and domestic investors who have excess funds to invest in profitable sectors with business actors or borrowers of funds to create profitable collaborations. Investors and borrowers can meet via an online application, and all transactions are completed in real-time. Peer-to-peer lending companies also monitor lenders and borrowers to ensure customer security. Consumers will benefit from this. The existence of this program has the effect of making credit more accessible and will continue to increase Indonesia's financial inclusion. Because there are no country boundaries, anyone from any country can take advantage of this fintech lending to invest in the economy's future.

According to BI, the term "financial inclusion" has gained popularity since the end of the financial crisis in 2008, Mainly through the impact of the crisis on low- and precarious-income groups. Pyramid People living in remote areas, people with disabilities, undocumented workers and members of marginalized communities are all targeted. This group of people is not likely to have a bank account (the elderly do not have a bank account, so they cannot access essential banking services such as savings). The proportion of people living outside of developed countries is extremely high. It is encouraging to see that the financial inclusion index in Indonesia is increasing, both in terms of account ownership and account usage. According to the Account Ownership Index, account ownership increased from 31.3 percent in 2014 to 61.7 percent in 2020.

Meanwhile, The account/account usage index increased from 59.74% in 2013 to 81.4% in 2020, a 59.74% increase since 2013. The third National Survey on Financial Literacy and Inclusion (SNLIK) conducted by the Financial Services Authority (OJK) in 2019 found that the Financial Literacy Index reached 38.03% and the Financial Inclusion Index reached 76.19%. According to the OJK survey results in 2016, the financial literacy index was 29.7%, and the financial inclusion index was 67.8%, an increase from the previous year. As a result, there has been an 8.33 percent increase in public financial understanding (literacy) over the last three years and an 8.39 percent increase in access to financial products and services (financial inclusion). It is estimated that 12,773 respondents from 34 provinces and 67 cities and districts participated in the 2019 OJK SNLIK survey. The survey considered gender and socioeconomic strata in urban and rural areas.

The existence of FinTech P2P lending deepens financing penetration for low-income groups. Each group has the potential to grow through independent business development. However, they are hampered by a lack of access to traditional financing. Several FinTech companies have taken an approach that allows every line of society to access loans. The approach, among others, is based on product needs and ease of access to financing. Through group lending, The impact of fintech on financial inclusion is even more pronounced. Fintech startups engaged in intercompany lending can serve the poor, especially those not reached by banks due to their remoteness from financial centers.

The Government of Indonesia's Strategy to Improve Financial Inclusion

The government has issued several technical regulations on financial technology through the Indonesian Banking and Financial Services Authority, which authorizes the regulation of financial technology according to its categories. For example, Financial Services Authority Regulation No. 77/POJK.01/2016 on Information Technology-based Credit and Lending Services and Bank Indonesia Regulation No. 19/12/PBI/2017 on the Implementation of Financial Technology were promulgated. Provides financial services to connect lenders/lenders with borrowers/borrowers directly through an electronic system called Fintech Lending/Peer-to-Peer Lending/Online Lending to arrange loans and loan agreements in Rupiah. The terms technology-based lending and lending services also describe fintech lending (LPMUBTI). As of March 2, 2022, the number of OJK-licensed fintech peer-to-peer lending or fintech lending providers was 102, increasing yearly. Macroeconomic policies, which are implemented jointly by the government and the private sector, are intended to help the economy overcome problems that may arise in the future. The microeconomic policy is divided into two types: monetary policy and fiscal policy. Monetary policy is the more visible of the two. A monetary policy is a government policy that aims to improve economic conditions by adjusting the amount of money in circulation. In macroeconomic analysis, the money supply has a significant impact on the level of output in the economy and the stability of the price level. A lack of balanced production activity, combined with a huge money supply, will increase the prices of all commodities throughout the economy (Pohan, 2008). Fiscal policy is a type of government policy that regulates economic activities through government revenues and expenditures to balance the budget (Ibrahim, 2013). A state's fiscal policy regulates its income and expenditure to maintain economic stability and stimulate economic growth (Rozalinda, 2015).

To establish a stable economy, the government has put several policies that will undoubtedly breathe new life into the country's economic system. Financial inclusion is a policy that the government of Indonesia is putting into effect. Integral financial policies are a method of improving financial services for the general public by increasing their use of traditional financial instruments such as transfers, savings, loans, and insurance by not only appropriately providing products but also by combining them with various aspects of society's well-being, such as education and health care (Bank Indonesia, 2016). Following Presidential Regulation (Perpres) No. 114 of 2020, the government updated the National Strategy for Financial Inclusion (SNKI) and revoked Presidential Regulation (Perpres) No. 82 of 2016, which had been in effect since 2016. The new Presidential Regulation on SNKI was enacted to encourage an increase in the use and ownership of formal financial services, which has the potential to improve the overall welfare of the public. At the SNKI Coordination Meeting, the National Council for Inclusive Finance established targets and the 2021–2024 SNKI Work Program to ensure that the benefits of Presidential Decree No. 114 of 2020 regarding SNKI are felt the community more quickly. It was decided at the Coordination Meeting that the annual financial inclusion index target for the period 2021-2024 would be 82 percent in 2021, 85 percent in 2022, 88 percent in 2023, and 90 percent in 2024.

According to the organization, the Financial Services Authority (OJK) has once again expanded international cooperation with countries and organizations to strengthen the country's development of various economic and development projects. A Memorandum of Understanding (MoU) with the Autoriti Monetary Brunei Darussalam (AMBD) was signed in 2021, and the Organization for Economic Cooperation and Development (OECD) continues to work with OJK (OECD). The signing of these two memorandums of understanding is part of OJK's efforts to strengthen cooperation with financial authorities in Southeast Asia, particularly in accelerating the implementation of sustainable finance principles in Indonesia and other initiatives. Among the areas of cooperation covered by this MOU are capacity building, the exchange of information and best practices, the supervision and oversight of financial institutions in Indonesia and Brunei, and other areas of cooperation in Islamic law traditional finance.

Aside from that, this Memorandum of Understanding includes cooperation in education, financial inclusion, and consumer protection. The cooperation between the two governments follows one of the founding principles of ASEAN, which is to promote economic growth in the organization's member countries. ASEAN countries at the 7th Annual Meeting of Finance Ministers and Central Government Governors pledged to intensify efforts to recover their economies from the COVID-19 pandemic and promote long-term economic growth through digital and sustainable approaches1, which happened on March 30, 2021. The ASEAN countries also agreed on several other commitments at the meeting, including promoting the linkage of payment systems in the ASEAN region to promote trade, commerce, and financial inclusion. After that, they continued efforts to promote financial inclusion in ASEAN. This includes, among other things, implementing monitoring and evaluation activities and developing digital financial literacy strategy guidelines.

4. CONCLUSION

This study concludes that P2P lending in fintech can increase financial inclusion. With the development of information technology and the rapid internet penetration, several digital financial services have emerged, making it easier for the public to gain knowledge and education about finance and financial services to create financial inclusion. Several FinTech companies have taken an approach that allows every line of society to access loans. This approach is based on product needs and easy access to financing to create financial inclusion.

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