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## **REGULATING P2P LENDING IN INDONESIA: LESSONS LEARNED FROM THE CASE OF CHINA AND INDIA**

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### **Abstract**

P2P lending industry in Indonesia has undergone a significant growth in the past two years. The growth of the sector has been perceived positively by public and the government. With the very first P2P lending regulation has just being released in late 2016, the sector is still in its early phase. Yet, there are possible necessities to institutionalize P2P lending service platform, as possible various service and business model of P2P lending and fintech in general may come in hindsight.

This research is intended to see possible lessons learnt on regulating P2P lending sector, based on the case of China and India. The feasibility on implementing such lessons is then being discussed through Actor and Network Analysis approach. The

result shows that among the three countries compared, Indonesia which adapted a functional regulatory supervision approach is seen as having more stabilized and best adapted financial services regulatory system compared to China and India. Lessons learned therefore are to focus their current regulatory directions and goals set out by central regulators. The result of Actor and Network Analysis suggested that in order to continue such regulatory goal, collaborations and growth theme should be fostered in the ongoing regulatory framework in order to accommodate the interest of borrowers, P2P Lending Owner, and collaborative partners.

**Keywords: P2P Lending; Regulatory Framework; Financial Regulatory Supervision; Actor and Network Analysis; Indonesia**

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## **INTRODUCTION**

The introduction of P2P lending platform in Indonesia has promoted a huge impact by bringing large number of unbanked people into financial system rapidly. Since a large portion of the borrowing party comes from Micro and SME business, the local Government believes that this market mechanism will bring up economy. Nevertheless, due to the novelty of the business model and no prior business configuration over P2P lending platform owner, the regulators were challenged to consider the existing regulation.

The very first OJK regulation number 77/POJK.01/2016, named as “Pinjam-Meminjam Uang Berbasis Teknologi Informasi” (Information Technology-Based Lending Service) was announced in December 2016 to partially address such discussions above. Its content is heavily concerned on how regulating P2P lending service provided by any type of business. The main objective of the law was to require P2P lending providers on applying for an OJK license permit in order to operate their P2P lending platforms. However, there is a separation needed to be made to draw a clear line between services provided by formal financial institutions, and services provided by non-formal financial institutions.

The mandated POJK number 77/POJK.01/2016 has not been resolving this issues yet wholly, as the goal of issuance of license permission has not been seen as addressing the fundamental institutional question of P2P Lending. As it is projected in the future that various model of P2P Lending business from foreign countries will be presented, there is an urgent call to discuss this issue.

Knowing that such milestone above marked the establishment of the very initial fintech regime, it is evident that P2P regulatory framework Indonesia is still at its earliest phase. Significant number of lessons shall be learnt from the case of other countries with similar market circumstances and have already developed a well-

established set of regulation thus far. When looking from these prior experiences, Indonesia may or may not need to take some few lessons on regulating P2P lending platform according to the country circumstances. Lessons adopted should not be limited to the scope of customer protection and risk management, but also how financial system in different countries has been institutionalized since its establishment. Previous studies are often taking a look at a single country case study [1] and have not scrutinized the relationships between similarities of market circumstances across multiple countries. There is an indication for instance, a need to adapt a functional regulatory supervision to accommodate changes in technological progress.

Yet, the evidence supporting such theoretical claim has not been reviewed in depth, ultimately using different countries case studies. Thus the theoretical discussion on different regulatory approach towards financial service will be reviewed.

In this study, this research will take a look at China and India as the object of case study comparison. Both countries along with Indonesia have been mentioned as the top three most populous countries with unbanked population. In the case of China, its financial system regulatory framework on P2P Lending was just established in the end of 2015 following a large event of fintech fraud occurred in the country.

The country has been picking up the pace to race into re-stabilization their financial system. Alternatively, India is a perfect comparison for P2P lending breeding ground due to its similarity on the platform adoption and market characteristics. Indian direction on P2P Lending was also fairly new, established in April 2016.

In a greater extent, this proposal should also able to address how the trajectory of Indonesia P2P lending development on supporting the creation of fintech ecosystem may be shaped. This is seen as important as to date, there is only one discussion on the feasibility of changing regulatory supervision on financial services in the country may be performed [2]. Thus, the writing is this text will be directed through discussing some of the existing literature on the institutional approach of how P2P Lending is regulated. The discussion on the perceptions of all the stakeholders within the arena and how it may act upon the implementation will be reviewed after then.

## **LITERATURE REVIEW**

### **Historical of Indonesian Lending Market towards Unbanked**

Indonesian banking industry was started to operating as early as 1895 when Bank Rakyat Indonesia (BRI) was started to operate as the first rural bank. After that, the period of 1900s started to promote the emergence of small scale lending institutions in the form of BKD (Badan Kredit Desa/Rural Credit Agencies). This is the period where savings and loans are being provided by colonial and was perceived by the external stakeholders as a part of “ethical colonial policy”.

It was until 1978 that finally a formal bank was established to provide citizens in rural area. The Bank Perkreditan Rakyat (BPR)/People's Credit Banks were designated to licensed rural banks. It was later recognized in Law no 7 of 1992 banking law which was created to formalize BPR and recognized the distinction from common commercial banks. Under this law, BPR may only operate under specific limitations and its operation is only permitted to provide basic loans and savings account.

Apart from rural-based formal institutions, there is also traditional loan provider scheme that is so-called loan shark that substitutes the function of loan provider especially in rural areas. This loan system had been known to exist longer before the first formal institutions was established, and it remained exist to date. The common conception presents in Indonesian society lead to unwillingness for citizens and small business owners to apply for loan due to perceived difficult applications, making credit financing gap becomes more prevalent.

In short, the traditional scheme then is becoming more habitual especially for people in rural area with lack of access, ability to meet loan requirements, or prudent credit risk to formal banking services. This major issues is what to be known the main reasoning behind the emergence of fintech, especially P2P lending in the country.

## **P2P Lending**

P2P Lending is the practice of lending money to either individuals or businesses through online platforms that functions as a match-maker for lenders directly to the borrowers. The process takes place in an online platform, usually in the form of websites and employs certain credit scoring or analysis tools.

The opportunity of P2P lending lies in its convenient solution that may not be provided by conventional banks. Furthermore, its main strengths lie on its ability to perform basic credit screening function with efficient process. Approaches taken in the system are varied between platform providers. For instance, as Duarte, et al. [3] suggested, borrowers who are deemed as trustworthy are highly correlated to a better prudent portfolio and less default rate on fulfill their loan obligation. This is translated from the visual appearance such as borrowers photographs consists of multiple parameters such as gender, ethnicity, and others kind of perceived demographic or financial indicators [3]. Other researchers also suggested visible friendship networks such that identities and number of friends [4] and consequently the borrowers' interaction with their friends in larger social groups [5] is strongly affecting the loan portfolio of the borrowers.

## **Determinant of P2P Lending Adoption**

The discussion of P2P lending adoption can be viewed as an adoption towards fintech, as its nature on utilizing technology on financial services. Following Mowery

and Rosenberg [6] theoretical view on technological trajectory, it can be argued that there may be two possible paths on the progression of fintech: technological push or market pull. Some previous research has distinguished both driven factors differently, for instance Fin-Tech startups and usual companies [7], disruptor and collaborator [8]. The 2008 crisis can be said as an antecedent of fintech, as public perspective towards conventional financial system being deteriorated. Banks became stricter towards SME lending, and this happened through most Western countries where the crises hit hard, the economic and political condition act as the enabler towards the change in this style.

Aside from macroeconomic condition, the market pull factors are also playing role in the rise of fintech popularity. Haddad and Hornuf [9] examined a set of factors that inducing entrepreneurs to establish a fintech startups. The availability of latest technology and number of telephone subscriptions are contributed the most, supported by the number of labor force and financial system sounding with the latter contribute inversely to the rate of establishment. This finding is in line with Zavolokina, et al. [10], who examined the antecedent of fintech based on media perception.

### **Regulating P2P Lending in other Countries**

The fintech industry landscape has developed its own path distinctly across the world, making each region has its own feature. While seemingly fintech industry has been risen up to its popularity after the mid crises in 2008, western countries are motivated primarily due to trust on bank issues as an alternative for existing conventional banking system. Additionally, typical Western regulators allow enough space for new business models and concept taking place in the market, which are usually initiated by large corporations such as bank. This is mentioned as “grey zone” whereas most Asian countries however shown little relevancy for such concerns above<sup>1</sup>.

Given the fact as explained in previous part that volume of P2P lending loans has increased tremendously, numbers of lenders, borrowers and cash transacted have reached a critical size. As a result, there is a possibility of a major uproar changing of financial service industry will be emerged. By this means, regulators will hold large amount of responsibilities to stabilize the market specifically in P2P as a new financial platform.

Example on regulating P2P Lending countries can be learnt from other countries. Philippon [11] for instance discussed the US existing approach on changing regulatory framework of financial services which is highly subjected to political, economy, and coordination costs. US who experienced rapid growth in the sector

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<sup>1</sup> <http://fintechnews.sg/2017/fintech/difference-between-asian-fintech-vs-european-fintech/>

has arranged a specialized legal authority called OCC (Office of the Comptroller of the Currency) to establish a body for regulating P2P Lending service. In UK, the Financial Conduct Authority (FCA) play a role in making a regulatory sandbox for fintech industry, making it is possible to new products and services to be tested in safe space without prior facing the normal regulatory constraints<sup>2</sup>. In short, Regulating P2P Lending was not a straightforward task and may require structural approach, as bank as incumbents which in this case will largely impacted to the legalization of the business.

### **Actor and Network Analysis on P2P Lending Sector**

As the latter part of the study is directed to determine the possible policy formulation based on the actors involved in the arena, it is required to identify at first all of the actors involved and what is their current stance in the issue. According to Enserink, et al. [12], Actor Analysis help to clarify values and arguments of each player, improve the quality of the analysis by research and map the positions, interests, resources and relations between the actors. It is rooted from a classical method of stakeholder analysis [12].

Prior analysis to identify stakeholders has been done in several occasions in the past. Bachmann, et al. [2] attempted to structure different groups and individuals involved in the market mechanism of P2P lending using Freeman's stakeholder approach.

The list covered mostly external stakeholders which are affected by the presence of P2P lending platform. They divided the external stakeholders into two primary groups: main target groups and supporting/regulatory groups.

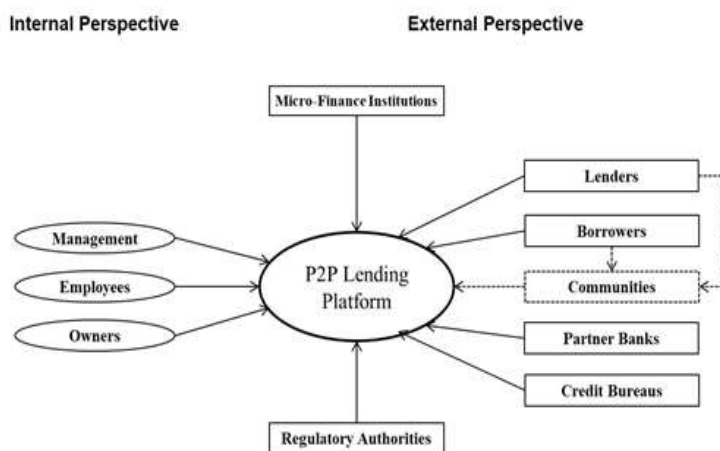
The main target groups are those who are directly involved as the element of market mechanisms on PP lending platform. Aside from the platform provider themselves, they are said to be the determinants that constitute the success of the platform [13]. Most of the discussions centered on both the lenders and investors who are matching the basic supply and demand market mechanism. In few occasions, the establishment of communities such as online communities also presents.

The secondary groups are playing role in few facets. Regulatory authorities are playing a large portion on managing the market, and the degree of its importance may have varied between countries. The presence of regulators as others supporting groups may include banking system to channel the process of lending [14], credit bureau and external monitoring agencies.

The complete initial typology of stakeholders from Bachmann, et al. [2] that is used as reference can be seen in Figure 1.

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<sup>2</sup><https://www.finextra.com/newsarticle/30417/uk-calls-for-global-fintech-regulations>

**Figure 1:** Existing classification topology of P2P lending stakeholders.

In this paper, the author attempted to follow the above classification on the context of Indonesia market as the underlying P2P lending market is composed by both investors and borrowers, and in most part are heavily regulated by central authorities. The role of banks here as partner should be scrutinized due to the fact that possible regulation may set out different outcome towards the relative position of the banks in the field. The argument is that whether bank may become a partner by requirement or as strategic initiatives [14].

## METHODOLOGY AND DATA COLLECTION

This writing uses a case study of the three countries as main methodology, primarily in the first part of analysis. A case study towards the three countries will be conducted to examine the interrelation between the possible similarities among of the countries. The case study approach was used due to the complexities of a situation behind the issue, and possibility of having a hindsight advantage that might relevant in the present.

The second parts of analysis are carried out through performing multifactor analysis for policy recommendation, specifically using Actor-Network theory. As the nature of the issues involving multiple stakeholders and is complex in essence, this approach is moderately selected following Enserink [12]. The specific methodology of Actor-Network Theory is also selected in the sense that the scope of the study extends beyond the level of organization and technology, and exists in constantly shifting networks of relationships.

There were two interviews was conducted with stakeholders in fintech industry. One represents the perspective from a local commercial bank, while the other one was represented by one of the P2P lending platform owners. As a consequence, alternative data collection techniques were employed in first place, including

participatory method and video record.

Participatory data collection was conducted on a large platform with various stakeholder participants, such as seminars and workshops. Considering that the subject of P2P lending and its regulatory framework has been the subject of discussion to large media coverage in the recent months, there are more incentives to do such techniques. With regular events held by Fintech associations, P2P Lending players are actively introducing and promoting their services in the public and Central Regulators are keen to educate the market through seminars and workshops. Four events were successfully attended and being reviewed in this case.

Video records assessed are those which are dated at least 3 month before the primary formal documented regulation of P2P lending service from each country. In China and India case, as there are Consultation paper/initial draft that was written prior to the final published draft, the determined cut-off time for video uploaded period was calculated according to the time the Consultation Paper/draft issues. This was intended to make sure that information carried in the videos are in lined with the grand design of P2P Lending regulation from each of the country. For video records data, seven videos are being collected as primary data sources.

## **ANALYSIS**

### **Case Study of Country Comparison**

The results of case study comparison show the following results:

The existing Chinese regulatory framework is influenced by US scheme, where the government of financial service is remained centralized, resulted in a low degree of liberalization. There is however a certain level of authority, as the three agencies may operate independently without jurisdictions from other sectorial agencies. It is quite similar to the administrative area in US in this case, as each of the state possesses a power to control the whole market, up to issuing a restriction for the service.

The multiple regulatory entities pose challenges to the systemic risk of financial sectors. As the sector becoming more important to the economy and market mechanisms will be reformed by the arrival of fintech era, it is important to have a single bird view look upon all the subsectors by super regulators. It was just few months prior to the writing of the thesis that the government finally decided to take a big step. A coordinating agency that embodies the three regulatory bodies will be established, and the setup plans has been initiated.

India case showed a quite distinct result. In the regulatory field, The Reserve bank of India (RBI) has been the one who are playing the primary role in creating the proper fintech business enabler in India. It regulates the clarity regarding licensing for payment banks of telco, technology and other digital companies. Similar to China



and Indonesia, India also has set out their regulation; in this case is called “direction”, as certain aspects of P2P Lending have not been defined.

Prior to the establishment of the direction, The Consultation paper had defined a distinction between Security Based Crowd funding and P2P lending domain jurisdiction. The Security Based Crowd funding including equity based crowd funding, debt based crowd funding and Fund Based Crowd funding which domain would fall under capital markets regulator (SEBI). It is therefore the responsibilities of banking system to regulate P2P lending as the other form of crowd funding. Yet, the categorization of P2P Lending as NBFC (Non-bank Financial Company) is still under debate, for instance, should be formalized as regulation on crowd funding rather than solidify P2P Lending as NBFC.

In its implementation, as mentioned above major debates occurred due to categorization of P2P lending under NBFC, smaller P2P Lending providers for instance, expressed that a net owned fund at least 20 Million Rupee is unwarranted as this regulation applied to general NBFC. These smaller platform providers deemed the requirement as unnecessary condition, as their major spending's only technology and salaries. This is seen as dualism, whereas in one hand collecting funds from the public is not allowed as others NBFC did, yet they need to comply with same playing field as NBFC. The limitation was also becoming more complex to larger extent such as prohibition of cross sell products, facilitate international flow of funds, or having a leverage ratio lesser than 2 which require them to raise funds, as opposed to the scope of activities that they are not permitted to do.

Indonesia results however showed a contrast result. During the period of 2015-2016, there were some challenges for any P2P Lending companies to grow in Indonesia. The lack of underlying regulations can be considered as one of the principal issues. Some countries have taken regulatory responses to the development of P2P Lending business.

Indonesia, however, has not yet provided any regulatory response to the P2P Lending business, although this business has been increasingly popular in Indonesia. At that moment, P2P Lending startups do not clearly fall under the purview of any single authority.

During 2016, the P2P lending market has started to blossom in the country. This was the period when the government was awarded that such directions are required to be made. It was OJK as the regulator of financial market that issued the very first regulation on P2P Lending: POJK 77/01/2016 regarding Layanan Pinjam Meminjam Uang Berbasis Teknologi Informasi (Information Technology Based Lending Services). The policy was meant to stipulate the creation of fintech ecosystem in a more extensive scale that is expected to integrate with major financial service. This includes those service offered by bank, capital market, venture capital and other financial institution (those within the Fintech 2.0 products) and other supporting

fintech platform and technology such as big data analytics, robo advisors, aggregators etc. (referred as Fintech 3.0).

Under such regulation, P2P Lending providers which primarily refer to start-ups are required to apply for registration and licensing. OJK will perform the supervision and evaluation over the fintech activities during the registration process before they may apply for a license. The most notable points covered in the rules are mostly aiming to protect consumer interests, which was translated into requirements such as opening escrow accounts and virtual accounts at banks, having own data center within the country, and requirement of maximum funded of IDR 2 billion that may amounted to a single borrower.

### **Comparative Results of China and India Case on Indonesian P2P Lending Regulation**

Regulating P2P Lending sector is quiet a complex task to begin with, as the direction in which a country reacted to the sector is highly influenced by how the country has institute their financial service sector. By this means, the underlying mechanism on P2P lending as a subject of discussion can be perceived from either institutional point of view or service point of view.

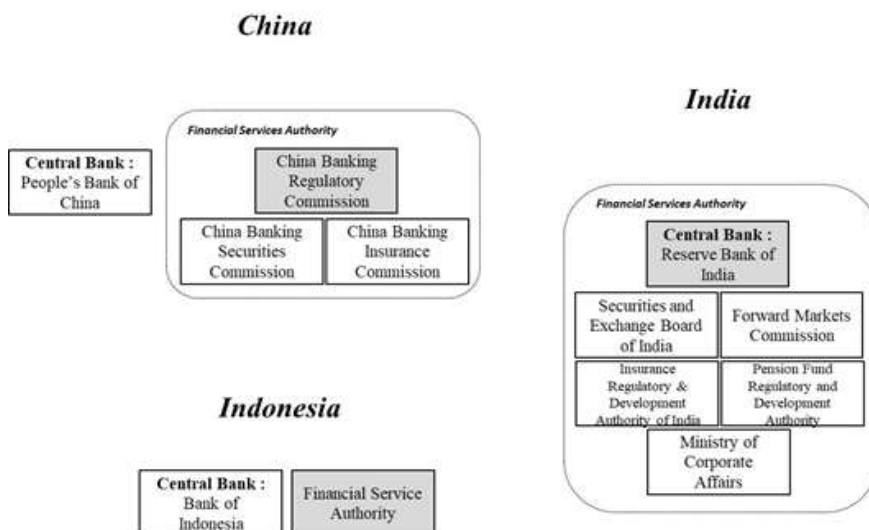
China institutional regulation views that similar type of financial business should be regulated by similar regulating entities thus fall under same regulator. Their market situation is quite similar to Hong Kong who formerly possesses an uncertain regulatory Regime [1]. This perspective is focused more on institutional point of view so that a single regulator on banking should oversee the lending market. India may be categorized upon this group as well, in addition that established order of financial services authority had helped them to classify the responsibility more effective as they have established six distinct regulators.

Taking the most recent industry situation from market point of view, it is evident that Indonesia face the most stabilize regime among the three. There are possibly two perspectives that highlighted this finding.

### **Regulatory Point of View**

The distinct difference between Indonesia and both China and India regulatory institution can be seen differently. While China is adopting institutional regulation, India and Indonesia accordingly turns out adopting rather functional regulation system. The big picture on how the country's regulator governing the P2P Lending service is summarized in Figure 2.

**Figure 2:** Financial Services Regulatory Bodies Division between China, India and Indonesia<sup>3</sup>.



In the case of China, as there are three main regulators on financial services authority, each of the body has specific responsibility. P2P Lending falls upon banking regulation, which in turn requires each of the platform providers to possess the permit from banks.

Apparently, Indian case was the opposite of China experience as P2P lending is characterized as NBFC (Non-Banking Financial Companies), thus treated in similar fashion as NBFC. They are obliged to apply for P2P Lending license from RBI (Reserve Bank of India) as the Central Bank. Yet, it is still debatable that such center role should fall to RBI, whose main responsibility is to regulate deposit product. It was seen that RBI was only and should be able to oversee and giving directions on other institutions conducting similar activities as collecting public fund.

India basic issues also lie in the categorization of P2P lending as NBFC, rather than put it out as institution whose activities are engaged as intermediary. The RBI imposes P2P lending to conduct similar operational activities as NBFC do. This is the major difference with Indonesian style of functional regulation. In Indonesia case, the P2P lending service was regulated by OJK. OJK does not and expectedly at the moment will not specify to what financial services institutions that P2P lending may belong to. What they are regulating is the definition on what service that the platform offers. The major positive points presented here is there is a degree of flexibility from Indonesian structural system over determine the proper regulation as there is no dependency to follow the previous path. As a result, it is much easier to support the

<sup>3</sup> Shaded regulator refers to one who established the very first P2P lending regulation.

future policy formulation on the development of the industry as there is no need to define the institutional basis of future fintech service.

### **Market Point of View**

From the market point of view, Indonesia once again experienced the best market timing on regulating the industry as the nascent phase has just started on the time the regulation was being made. It is however a different case for India and China. In Indian case, there were few cases where such established activities from market cross the borderline from the new P2P NBFC Directions, made the legal status of these activities comes into question. This is for instance is the activities from some HNI (High net worth Individuals) that already lend over 10 Million Rupee. Stipulation of P2P lending of having enough leverage ratio despite not allowed to collect public funds also raise huge question marks, as having adequate leverage ratio pushed them to look up possible sources of funding.

Nevertheless, China's case was the one who posed the greatest issue of magnitude. As indicated before, the number of P2P lending has been dropped then after their inability to comply with new rules. From the total of almost 5000, it is expected that only less than 10% are able to survive the regulatory crackdown<sup>4</sup>. The major impact of changing regulation has affected the very structural condition of P2P lending market.

Based on the finding above, it is expected that Indonesia has been positioned itself as a leading in stabilizing regulatory institution among the three. With proper timing to introduce the very initial rules and a service-oriented functional institution that is easier to accommodate future fintech innovation, it is the best option to simply overseeing what are the next measures that is going to be taken by the central regulators, rather than changing its structural regulation. The next part on stakeholder analysis presents this discussion in detail.

### **Result of Actor and Network Analysis in Indonesian P2P Lending Industry**

According to the previous result of analysis, it is suggested that central regulators should merely continue the ongoing regulation, as existing financial regulatory supervision has been regarded as more stable than India and China. There are no necessities to transform existing regulatory supervision system. Thus, the problem formulation should be directed on „what regulatory framework should be established?

The result of Actor and Network Analysis here are presented following the steps from Enserink [12]. Based on the collected information, the Actors in Indonesian P2P

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<sup>4</sup> <http://lending-times.com/2017/09/11/analysis-of-the-p2p-market-in-china-after-the-regulatory-crackdown/>

Lending Industry may be categorized into 2 groups. These 2 groups are constructed following Freeman [12] stakeholder approach and by adapting Bachmann, et al. [2] topology, and are presented in Table 1.

- **Main target group:** Consists of investors, borrowers, and P2P platform providers.
- **Supporting group:** Consists of regulators, association, and collaborators.

**Table 1:** Exhaustive list of identified stakeholders.

Group	Main target group			Supporting group		
Member	Investors	Borrowers	P2P platform	Regulators	Association	Collaborators
Entities name/example	Individual investors	Individual borrowers	Amartha Modalku	Financial Services Authority (OJK)	Indonesian Fintech Association (AFTECH)	Commercial Banks
	Institutional investors	Institutional borrowers	Investree Koinworks	Bank of Indonesia (BI)		Fintech

The first group is categorized as the “main target group”, in the sense that these are the groups subjected to be regulated by proposed policy design. P2P platform provider’s stands as the main objects of policy design, while investors and borrowers should follow the standard of the designed guideline if they are going to participate in the market.

The second groups are those whose role is primarily supporting the notion of P2P lending sector development. OJK and Bank Indonesia as regulators will act as the essential actors. OJK as the country Financial Services Authority will play significant role among the two, Associations here is primarily referred to AFTECH, as the only association of general Fintech service in the country.

The next steps are focused on how the result of stakeholder’s power and interests are related to the perceived issues. The elaborations of dimensions adopted in the table are following the typology from Brugha [15].

- Interest is regarded as the degree of importance of goals or objectives from respective stakeholder towards the alignment of new regulation and new regulatory regime. This can be ranged from low, medium, or high.
- Power is the degree of ability on how stakeholders may affect the continuation of the change in the market or policy. This may be ranged from low, medium, or high.
- Position is translated as the stance stakeholder is taken on the issue. Their position may be categorized as supportive, non-mobilized, or opposed towards

the issues.

- Impact defines the level on how such stakeholders might be impacted if such policy measures have to be taken. This is also can be ranged from low, medium, to high.

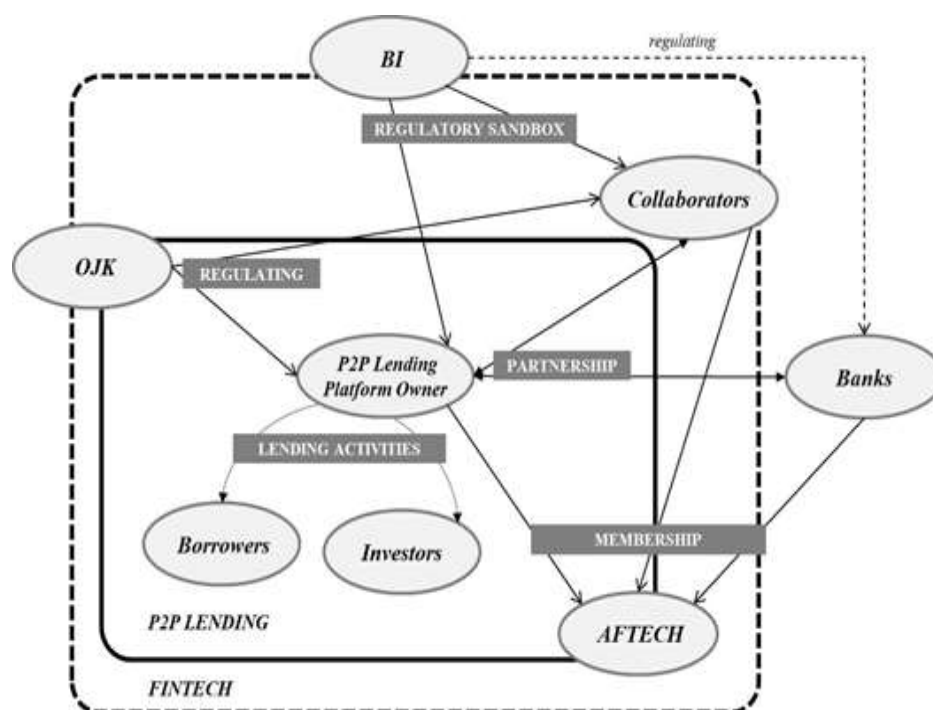
The summary of all stakeholders' analysis inventory can be viewed in Table 2. Based on the illustration of each stakeholder position above, a formal actor and network relations in the arena can be illustrated. The underlying assumption in the illustration is based on the view that related stakeholders are participating in the field of fintech industry as whole, not only participate in the arena of P2P lending. It is important to note that other fintech players whose definition is still lack are directed toward startups, and may fall upon collaborators category. The formal relations between actors are mapped in Figure 3.

**Table 2:** Stakeholders analysis on Indonesian P2P lending Ind.

Stakeholders	Characteristics				
	Involvement in the issues	Interest in the issue	Influence/power	Position	Impact of issue on actor
Lenders	Targeted market of the platform service	Medium-High	Low	Supportive	Medium
Borrowers	Supplier of the platform service	Medium	Low	Supportive	High
P2P Lending Players	Primary business players; the regulation nature of the business has just settled for a year and require more considerations	High	Medium	Supportive	High
Financial Services Authority	Primary financial service regulators; main interest is to ensure customer protection	High	High	Supportive	High
Bank of Indonesia	Banking and payment system regulators; main interest is to mitigate the risk in the banking and national payment stabilization	High	High	Supportive	High
Fintech Association	A collaborative platform for fintech (including P2P Lending) players and financial institutions. Their goal is to	Medium	Medium	Supportive	Medium

	achieve the creation of fintech ecosystem				
Commercial banks	Possible actor whose service are supposedly to be substituted; rather, their in Indonesian case, their take was more as collaborators	Low-Medium	Medium	Supportive	Medium
Fintech collaborators		Low	Low	Non-mobilised	Low

**Figure 3:** The map of Actor and their respective formal relationship in P2P lending regulatory issue.



Based on the discussion of each stakeholder position above, a formal actor and network relations in the arena can be illustrated. The underlying assumption in the illustration is based on the view that related stakeholders are participating in the field of fintech industry as whole, not only participate in the arena of P2P lending. It is important to note that other fintech players whose definition is still lack are directed toward startups, and may fall upon collaborators category.

Here the contrasting interest between stakeholders are attempted to be identified. As the idea behind OJK 2016 regulation was said ultimately to safeguard “customer protection and provider risk management”, it is suggested that these two ideas should make as primary interest. OJK, BI in a sense for its position as regulator, and

investor to some extent.

The opposing idea of the above idea should be accounted to the aspect which can be considered as “challenging” the idea protection of customer or risk management of P2P lending. This challenging idea can be perceived as “doing business without much restrictions”, that rooted from the idea of “generating profit or growing the business” as having much legal requirement and prohibition may inhibit the possibility of having as much as possible business performance measures. Thus, both ideas of customer protection & risk management, and profit and business growth made up the first dimension of the interest.

Another consideration that can be put up to contrast stakeholders perception towards the regulation of P2P lending is how they perceive the P2P lending itself. It is important to understand in the playing field, that the role of P2P lending is differently perceived between stakeholders. For instance, borrowers and lenders are clearly concern about the existence of P2P lending due to its provision of activities that are possibly not provided by other service.

This applies to the platform owner itself, as well as for OJK, since their consideration towards the platform is very high on supporting financial inclusion. As for the rest of stakeholders, the ideas above are secondary to their goal. They can be seen as taking the benefit of the service growth rather than the service itself. For instance: most banks are able to leverage their primary business by becoming escrow accounts provider, rather than focusing on the lending service provided by platform owner; Collaborators may utilize P2P lending primarily as other distribution channels; BI along with fintech association are pursuing their primary objective through fostering the growth on general fintech activities, rather than specific on P2P Lending. This take on how stakeholders view the role of P2P lending can be arranged into the second axis of stakeholders’ perception, categorized on how they view P2P lending. Those who are relying on the basic function of P2P Lending service view the platform as “lending service provision”, while the rest are viewing the platform as a growth vehicle, or mentioned as “growth tool”.

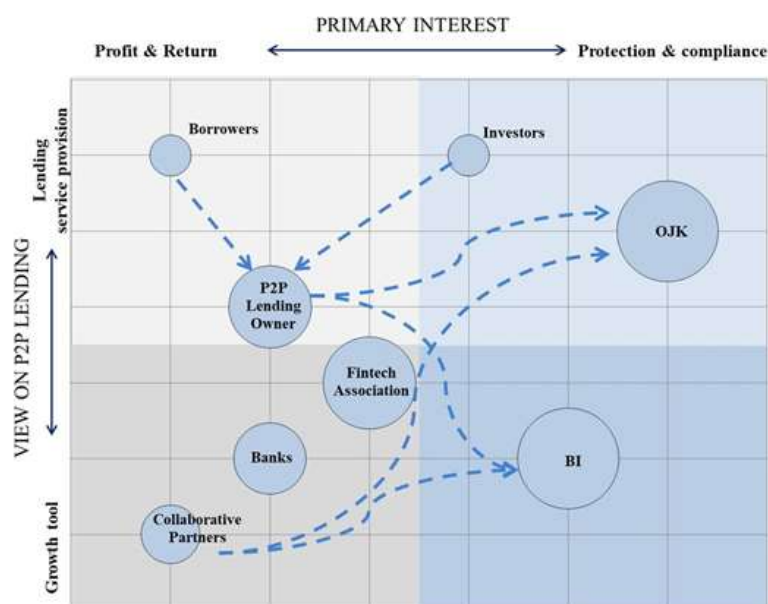
Looking on the discussion of each of the actor in the arena, there is a consensus that all of the actors are putting a positive outlook and supporting approach on the future P2P lending regulation issue. The ultimate direction that should be taken here is the stakeholder with the largest power; which in this case both of the regulators are; need to consider the growth aspect of those who are positioned in left quadrant better.

This involves not only the P2P lending platform owner, but also borrowers, partners and banks to some extent. Thus, the new regulatory theme should be fostered on collaborations and growth, as an addition to focusing on prudential aspect of the service. The policy strategy matrix should be illustrated in this sense. The policy strategy matrix should be illustrated in this sense. The constructed matrix can be



seen in Figure 4.

**Figure 4:** Policy strategy matrix containing interdependencies of actors based on interest.



## CONCLUSION

Indonesia is having fairly new institutional regulation with OJK has just established for less than 5 years, the stability of financial service system in the country has been shown an optimum safeguard, as opposed to China and India. The first lesson learnt to be taken here is that regulators should take a precautious approach in future possible business model following P2P Lending. The balance level of growth is needed to be monitored, as having an early boom might lead to a struggling for either some of the players or the incumbents. Struggling from early players were seen evidently in China, indicated with the declining number of P2P Lending permit in 2017, and India as well with many existing business model and lenders have to readjust their activities. The second lesson highlighted a successful lesson from Indonesia on adapting functional regulation approach. The functional regulation is better suited to adapt with recent condition of financial markets where digitalization and disruption happened across different value chain and sectors. The disadvantages on adopting institutional regulation was seen in China and India, as P2P lending platform is having a difficult time to comply with their respective category by Financial Service Authority.

Going forward, the notion of regulatory sandbox should support the development of P2P Lending in specific and upcoming wave of financial technology innovation. The idea of having novel financial service or business model to be formulated jointly with

regulator before the launching should be able to prevent disruptive financial industry event in major scale.

This research mainly put a contribution towards the academic literature on three discussions. First, it fills the gap on what is the guideline for regulators in order to put out sounding recommendation on constructing regulatory framework of P2P Lending, which can be generalizable into Fintech in general. Second, the necessities for regulator to adapt and possibly change their regulatory institution are also come into discussion. As previous research is mostly focused on single countries, there are no evident on what or what should not do by comparison.

## **LIMITATION AND FURTHER STUDY**

Considering the nature of the subject of the study, this study is conducted under the market booming situation, where the industry has been flourishing and the topics alone are very practical to the business. Few explorative studies may be performed in some of the essential topics especially in the circumstances of emerging economic country. The first limitation of this study is related to its scope in including both China and India, merely to a reason of market similarity and financial inclusion theme. There is a need to identify in detail what are the possible trajectory of financial service regulatory institution in both developing countries and developed countries.

The second limitation was the lack of interviewee number was accounted due to some limitation during conducting the study, which including time and availability of participants although this is compensated through employing another data collection techniques through scrutinize document record and participatory methods, there is limitation on getting important view of key stakeholders from such techniques. It is expected that future research will be able to improve the adequacy of data collection accordingly to the type of stakeholders involved.

Finally, there is also a limitation over the discussion of regulatory aspect which put much light in both P2P lending and banking system, as banking are seen to be the most closely sector that are going to be affected directly. It is found in the discussion however that some of financial service sector players as well as other collaborators from tech-based companies are affected with the issue. There is very little to none discussion to the knowledge of the author as how P2P Lending may affect these players. This open ups possibilities to conduct further studies on this topic.

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