

Holistic effort for P2P fintech: Stop the abuse

Andre Rahadian and Erwin Kurnia Winenda

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The past several years have seen the rise of online-based P2P lending firms in Indonesia. These firms, often called “fintech (financial technology) P2P”, serve a very important niche market: bringing financial services to portions of the population previously considered unbankable — taxi drivers, low-income families, poor inner-city youths and other people that had very little to no access to traditional financial institutions.

Unfortunately, along with the sharp expansion of these services have come ethical concerns about how these firms conduct their business. These concerns mainly revolve around their (often) predatory lending practices and the rude, and sometimes violent, way their debt collectors often do their jobs.

Some of these problems stem from the laser-like focus of these firms on growth. So sharp is this focus that potential customer evaluation and good risk management practices often fall by the wayside.

When these debtors eventually start facing difficulties in repaying their debts, the firms often resort to heavy-handed and unethical methods to collect; methods that often include intimidation, breach of privacy (such as contacting the debtors’ families and employers — often through data obtained from their phonebooks), and even violence.

On the other hand, a lot of P2P lending customers have very little idea about what it is they are getting themselves into. The reason they can get loans at these fintech firms and not banks is that these firms typically have far fewer requirements for loans compared to banks — which typically require more collateral and deeper checks on loan applicants.

This means that these fintech firms are exposed to a lot more risk than their conventional counterparts, which translates to higher interest rates.

This lack of understanding causes a lot of fintech debtors to severely overestimate their capability to pay their debts, which in turn results in a high number of nonperforming loans.

The government, through the Financial Services Authority (OJK), has tried to solve these problems through a series of regulations: No. 77/POJK.01/2016 on IT-based lending, No. 18/POJK.07/2018 on consumer complaints and No. 13/POJK.02/2018 on financial services digital innovations. Part of regulation 77 is that every P2P lending firm operating in Indonesia has to be a member of the Indonesian Fintech Lending Association (AFPI).

Even then, however, some of these problems persist. Thirty-two percent of all fintech firms reported by consumers to the OJK in 2019, for instance, are members of the AFPI. Moreover, to date, the government has yet to release implementation guidance on these regulations.

While the government’s step in this direction is to be lauded, reaching a comprehensive solution to the teething problems that this new section of the financial industry is experiencing must be a holistic effort that involves all stakeholders, namely the government, the firms themselves and the AFPI.

On the government side, the implementation guidelines for the abovementioned regulations must be issued as soon as possible. This will remove any lingering doubts, gray areas and confusion among both the industry and potential customers about what their rights and responsibilities are in all three phases of their engagements: new customer acquisition, loan disbursements and collection. It would be best, however, if the OJK left the technical implementation of these regulations to the industry and association themselves.

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We must also keep in mind that since this is a very new industry, not every player in the field has been registered with the OJK. These unregistered P2P lenders contribute significantly to the problems that the industry has been facing.

Thus the OJK must decide whether or not to enact a moratorium on new registrations, until such time as the industry has stabilized and the existing registered P2P companies have been licensed, and the guidelines for the regulations are in effect and well understood, since any change of regulations — for instance, a regulation that sets a cap on interest and fee rates charged by P2P lenders to no more than 0.8 percent per day — will take time to take effect.

As many parties can be affected including the financier and investor of the platform.

On the industry side, the AFPI must take a greater role in regulating the industry, starting by implementing a scoring system for known debtors that is kept in an association database that every firm must consult before taking on new customers.

This is a preventive step that could severely curtail nonperforming loans. Exchange of information on the nonperforming debtors between all platforms should be encouraged.

Collection must also be overhauled, allowing more negotiations and debt restructuring for customers that may be facing difficulties in settling their debts, especially if those difficulties arise from circumstances beyond their control. Currently, the AFPI is conducting certification for the firms' collection departments, a correct approach to the issues.

The industry must also play a bigger role in educating potential customers about the risks, rights and responsibilities they will incur as P2P lending debtors. Many complaints lodged at the OJK against P2P lending firms came from customers' lack of understanding of their rights and responsibilities as debtors, many of which are already explained on the respective platforms.

Teething problems in a new industry are something to be expected. It's now up to all stakeholders to work together to find a fair and lasting solution that benefits everyone involved.

The writers are partners at Dentons HPRP law firm. Andre Rahadian is also a member of the ethics board of the Indonesian Fintech Lending Association (AFPI). The above views are their own.

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