

ANALYSIS OF ONLINE LOAN SERVICES AT FINANCIAL TECHNOLOGY COMPANIES IN INDONESIA

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Abstract— The development of technology and information have brought to light new innovations in the financial sector. Financial services are currently developing in the financial technology industry or what is called Fintech. Fintech is a type of innovation in the field of financial services. A new company that's developed in an online form of loans with no collateral or filing done through an app on a smartphone. Indonesia's fintech industry is supported by an increasing number of Internet users and smartphones in Indonesia. Fintech is a financial services company that provides convenience for the community. This research aims to see how existing legislation has clearly regulated online loan services for the fintech companies. This type of research used in this study is normative or doctrinal legal research. Research into normatif law (normative legal research) is a process in which to establish a legal rule, legal principles, as well as legal doctrines to address legal issues faced.

Index Terms— Online loans, Fintech, Finance Sector, Regulatory, Fintech in Indonesia, application online, technology

1 INTRODUCTION

The development of information technology is increasingly encouraging renewal efforts in the utilization of technology results. The rapid development of information technology has brought changes to the patterns of life of Indonesian people. The development of information technology is marked by, among others, the development of internet technology. The internet currently has an important role in the development of information technology. The role of the internet in an information technology affects every aspect of human life in which information technology currently exists in developing the financial industry. The development of information technology in the financial industry has succeeded in modifying the financial industry, especially in the field of financial services which is now called financial technology (fintech). Fintech itself began to develop to provide financial solutions in the community. Fintech is currently seen as a merger of financial services and information technology. Fintech is a type of innovation in the field of financial services, which is combined with technology and financial services such

as sending money, paying, and lending money online. Fintech covers all the technical processes from upgrading financial software to programming new types of financial software that can affect the entire financial kite process. Entering the modern era as it is today, humans have had a life with a variety of activities or activities that can never be separated from technological developments. The rapid development of technology, especially in the financial sector also has developments towards more efficient and modern. The existence of fintech society today is faced with a major change in their lifestyle. Through technological advancements such as the present the community can be instantly connected to one another. Advances in existing technology make it easy for the public to conduct all types of transactions and the emergence of fintech companies as an alternative solution to meet the needs of the community in the field of financial services. Fintech offers new choices for consumers in making loan funds. The rapid growth of fintech in the last few years has caused fintech to grow with great potential. With

the breakthrough presented by the fintech company, many benefits began to be felt by the community. Credit transactions commonly carried out by banks are also played by information technology based lending and borrowing services, one of which is fintech peer to peer lending (P2P Lending). Fintech type of technology-based or peer-to-peer lending (P2P-lending) is a type of fintech that is growing rapidly in Indonesia. P2P-lending or Technology-Based Money Lending and Borrowing Services is the provision of financial services to bring lenders together with loan recipients in the context of entering into loan and loan agreements in rupiah directly through an electronic system using the internet network.¹ Based on Financial Services Authority Regulation No. 77 / POJK.01 / 2016 1998 concerning Regulation of Financial Services Authority for Information Technology Based Lending and Borrowing Services, there are three parties that are bound either directly or indirectly namely Lenders, Borrowers and Lending and Borrowing Services for Money-Based Loans Technology. In detail, the definition of the parties is as follows according to POJK LPMUBTI:

- a. Information Technology Based Money Lending and Borrowing Service hereinafter referred to as Operator is an Indonesian legal entity that provides, manages, and operates Information Technology Based Money Lending and Borrowing Services.²
- b. the loan recipient is a person and / or legal entity that has a debt due to an Information Technology Based Lending and Borrowing Service Agreement³

- c. lenders are people, legal entities, and / or business entities that have receivables due to an Information Technology Based Lending and Borrowing Service agreement⁴

According to Rebecca Menat, fintech as a new wave of companies is changing the way people pay, send money, borrow money, lend money, and invest money.⁵ A solution that is more innovative in changing and improving the banking business sector is fintech, which also has the potential to benefit various parties in the financial industry in Indonesia. The development of the fintech industry in Indonesia is supported by the increasing number of internet and smartphone users in Indonesia. With the convenience provided, the internet and smartphones have become important for the people of Indonesia and ultimately affect consumer behavior in conducting product and service transactions, including financial services. Fintech cannot be separated from internet and smartphone penetration in the world because it makes connectivity easier, between business and individuals. However, to ensure the optimization of the role of fintech for economic growth in society and financial inclusion in Indonesia, a study is needed on how to strike a balance between the ease and flexibility of financial services offered by fintech with clear regulations and supervision systems. The government needs to strengthen its role in overseeing fintech. Based on these matters, the Government represented by the Financial Services Authority as a financial supervisory institution needs to review the practice of fintech supervision in Indonesia. For example, many customers of fintech online loan applications are discriminated against in billing by fintech companies. These online loan application

¹ Article 1 Number 3 financial services authority regulations Number of 77/POJK.01/2016 about technology-based money lending and borrowing services

² Article 1 Number 6 financial services authority regulations Number of 77/POJK.01/2016 about technology-based money lending and borrowing services

³ Article 1 Number 7 financial services authority regulations Number of 77/POJK.01/2016 about technology-based money lending and borrowing services

⁴ Article 1 Number 8 financial services authority regulations Number of 77/POJK.01/2016 about technology-based money lending and borrowing services

⁵ Fitri Amalia, "The Fintech Book: The Financial Technology Handbook for Investors, Entrepreneurs and Visionaries", *Journal of Indonesian Economy and Business* Volume 31, Number 3, 2016. Page.345

companies tend to do rough billing to customers by committing terror through nasibat personal whatsapp and even to the customer's personal contact numbers. Departing from the explanation described by the author, the authors poured the results of the writer's thoughts in the form of a thesis writing proposal with the title "Law Enforcement in Borrowing and Borrowing Services of Money Based on Information Technology in Fintech Companies in Indonesia".

2 DISCUSSION

Indonesia has 3 institutions that play a role as regulators in regulating the fintech industry, namely the Ministry of Communication and Information, OJK and BI. Each of these institutions has a goal:

1. protect consumers or the public in safe and comfortable digital transactions
2. help fintech industry growth and help the national economy

The three institution regulate fintech through law number 11 of 2008 about information and electronic transactions. Besides that, the application of fintech also refers to article is paragraph (3) of government regulation number 82 of 2012 and minister of communication and information regulation number 20 of 2016 about protection of personal data in electronic systems. Indonesia government also regulates the fintech business in communication and information number 36 of 2014 about the procedures for registration electronic system providers. Fintech providers who have registered in Bank Indonesia must obey the regulatory sandbox, that is, the fintech providers should test their business system for 6 to 12 months before it's fully operated. During this trial period, the company will be accompanied by the government in legal administration and system operations so no rules are broken by fintech companies. The trial of the Regulatory Sandbox issued by Bank Indonesia in accordance with regulations of the members of the BI board of governors (PADG) No.19 / 14 / PADG / 2017 about the Financial Technology Limited Testing Room

(Regulatory Sandbox) and strengthened by PADG No.19 / 15 / PADG / 2017 regarding procedures for registration, delivery of information, and monitoring of financial technology providers. Bank Indonesia as the financial regulator in Indonesia makes special rules regarding the implementation of financial technology, also known as fintech, through Bank Indonesia Regulation Number 19/12 / PBI / 2017 which regulates:

- a. The development of technology and information systems continues to bring out the innovations related to financial technology;
- b. The development of financial technology brings benefits, but also has potential risks;
- c. The financial technology ecosystem needs to be continuously monitored and developed to support the monetary stability, financial system stability, and payment systems that are efficient, safe and reliable to support sustainable and inclusive national economic growth;
- d. financial technology must apply the principles of consumer protection risk management and prudence;
- e. Bank Indonesia's policy response to the development of financial technology must be synchronized, and integrated with other policies issued by Bank Indonesia.

Then OJK (Financial Services Authority) functions to administer regulation and supervision system in the financial services sector with the purpose to create a financial system that grows in a sustainable, regular, transparent, accountable and protects the interests of community. A authorities to make OJK Regulate the fintech industry by issuing the Financial Services Authority Regulation Number 77 /POJK.01/2016 about information technology-based lending and borrowing services (LPMUBTI). This regulation is expected to support the growth of the LPMUBTI or Fintech Peer-to-Peer (P2P) Lending industry as an alternative solution for public financing that not served maximally by conventional financial services industries, such as banks, capital markets, finance companies, and venture capital. This POJK also

made to protect the interests of consumers and the national, while at the same time providing space for Fintech providers to grow and develop, and contribute to the national economy. The Fintech P2P Lending provider in the POJK are classified as other financial service institutions included to supervision of the Non-Bank Financial Industry (IKNB) sector. In addition to regulating the implementation of LPMUBTI or Fintech P2P Lending, POJK also encourages the creation of a comprehensive Fintech ecosystem that include 2.0 (including Fintech banking, capital markets, insurance, retirement funds, microfinance institutions, finance companies, venture capital, mortgages, guarantees, and payments) and Fintech 3.0 (including Fintech big-data-analytic, aggregator, robo-advisor, blockchain, etc.). This rapid growth needs to be anticipated to protect consumers interests related to funds and data security, as well as national interests related to the prevention of money laundering and financing of terrorism, as well as financial system stability. In order to adopt the spirit of regulatory sandbox as implemented in Fintech start-up arrangements in various countries, POJK applies the provisions regarding registration and licensing. Providers are required to register before applying for permission. During this registration period, the Providers has been able to carry out by receiving assistance from the OJK who is continuously evaluating. At the latest 1 (one) year after being registered, the providers must submit an application to obtain a permit from the OJK.

3 CONCLUSION

Financial technology provides financial services easily and without any worry about the fintech system as long as they are officially registered in Bank Indonesia. Because the rules that made by related institutions such as ministry of communication and informations, OJK and BI have tested fintech about the implementation of systems and electronic transactions

providers using the regulatory sandbox method in PBI (Bank Indonesia Regulation), PADG (Regulation of Board of Governors Members) and POJK (Regulation of Service Authority Finance), as well as being strengthened by regulations made by the ministry of communication and information in the ITE Law. So the implementation of fintech in Indonesia can grow and compete in a healthy among fintech providers and can help people who need financial service quickly, practically, safely and comfortably

4 REFERENCES

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