# P2P LENDING AS AN ALTERNATIVEFUNDING: A PERSPECTIVE OF SMEs

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***ABSTRACT*****:** *The P2P lending platform is one of the funding alternatives that can minimize the gap between SMEs' business credit transactions and banks or financial institutions that use traditional mechanisms. This platform is an alternative for entrepreneurs and SMEs who have limited access to funding due to the characteristics of complex SMEs. The method used in this study uses a literature review that discusses the characteristics of P2P lending that has developed in the community. From the results of the literature collection, we will sort out the disadvantages, advantages, and risks of P2P lending so that it can provide an overview for the owners and managers of SMEs before deciding touse this platform. From the literature review, it can be seen that like other market phenomena it turns out that even though P2P lending still has weaknesses, this does not reduce the actual benefits of providing funding, especially for SMEs. P2P can take the role of setting up SMEs from creditworthy to bankworthy. P2P loans will increase the capacity of SMEs so that they will become bankable in the future to access bank credit platforms.*

**Index Terms:** P2P Lending, SMEs, financing, online platform**..**

## I. INTRODUCTION

Most countries agree that Small and Medium Enterprises (SMEs) are the main drivers of national development. This is because SMEs have a major contribution to socio-economic changes such as: opening jobs, opening export markets, and educating people to become entrepreneurs. [1]. Based on data from the World Bank, in developing countries, the contribution of SMEs is as a contributor to labor by 45% and national income by 33% [2].

If it is compared to large companies, SMEs have a more dynamic structure. They must have high innovation in order to enter the market, produce goods with better quality, and be able to respond to consumer needs. Most SMEs in the formof startups often experience unstable financial ups and downs. Limited ownership of the capital of SMEs makes the need for loan assistance for business sustainability.

Along with the rapid growth of SMEs, the risks faced arealso getting bigger. Among them is the relationship with banks that cannot develop and the low cash flow of the company makes some financial institutions provide restrictions when it comes to providing loans so that it will increase costs [3]. The attitude of SMEs as a risky business, banking access to various regions that are still unreachable, and the difficulty of the requirements to obtain loans make formal financial institutions that should provide funding unable to provide loan assistance to SMEs. The declinein the popularity of financial and credit institutions in the community created a condition for the emergence of new types of financial services that were able to serve economic entities in the formation of investment flows and funding distribution. Alternative types of contemporary financial intermediation services are now quite internationally recognized but are still a new phenomenon in the domestic financial market because they adjust to the regulation of banking functions, namely the type of peer-to-peer lending (P2P) [4].

By using the internet, the gadget, it can be used as an online meeting between lenders or investors with borrowers or as
a company that brings lenders to loan seekers can be a scheme to reduce the gap or distance of funding needs for entrepreneurs SMEs. The result of financial digitalization
has caused disruptions to traditional financial services. Financial technology has shifted traditional financial intermediation fortransactions but now consumers are spoiled to access various financial services by connecting via the Internet [5].

This shift certainly deserves caution not only by banks or traditional financial institutions but also by the owners and managers of SMEs. Therefore this study will provide a review of the advantages and disadvantages of the existence of P2P lending as lending institutions compared to traditional banks and financial institutions so that they can provide knowledge to SME owners and managers in making decisions regarding corporate funding.

## II. RESEARCH METHODOLOGY

This study uses a systematic literature review of [6] whichis almost similar to the review of the literature conducted by Denyer and Tranfield. Adoption of the literature review uses a five-step approach consisting of the formulation of the main problems, the search for electronic literature, selection and evaluation, classification of studies and synthesis, and reporting of results and outcomes. A summary of the systematic literaturereview can be seen in Figure 1.

**Main Question.** The main question in this study is what are the advantages and disadvantages of using P2P lending as an alternative financing for SMEs. The answer in this study can be a reference for SME owners and managers in making decisions and formulating company policies before deciding to use P2P as an alternative funding other than banks and other traditional financial institutions.

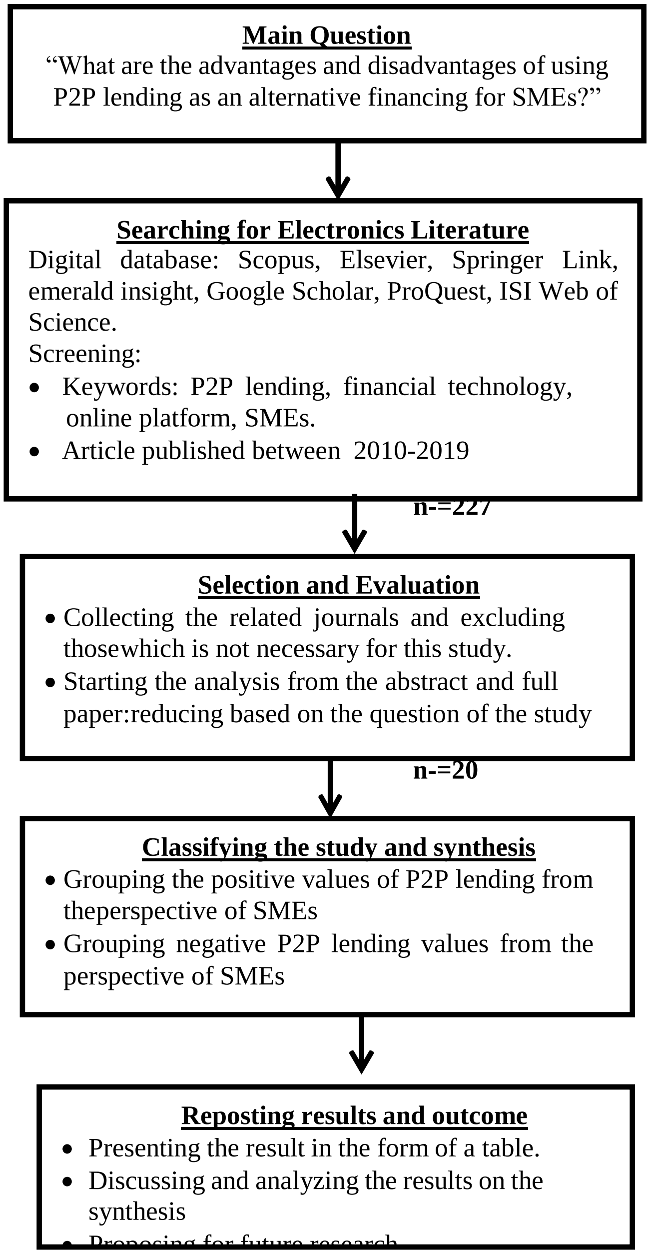


**Figure 1. The Stages of Systematic Literature Review**

**Searching for Electronics Literature.** In the next stage, literature is collected that supports the main questions through digital-based search using computers with internet access. Search is conducted through journals published online and reputed, for example. scopus, Elsevier, Spinner Link, Emerald Insight, Google Scholar, ProQuest, ISI Web of Science. Some keywords included in the search column are "P2P lending," Financial Technology "," Online platform ", and" SME performance ". In addition, the articles selected were articles published in the last 10 years, starting from 2010-2019.

**Selection and Evaluation.** The search results collected around 227 articles, including journals, proceedings of seminars, theses, dissertations, and working papers. Many

regarding P2P lending and the performance of SMEs while articles that are not included in the criteria and issued in the study are articles published below 2010. The filtered articleswill be analyzed and synthesized.

**Classifying the Study and Synthesis.** From 20 filtered articles, the next step is to classify the classification of excess P2P lending and the classification of P2P lending deficiencies when viewed from the perspective of SMEs. The results are then written in a table to make it easier to understand.

**Reporting Results and Outcome.** The results of the classification of studies and synthesis are then discussed in detail and tailored to the characteristics of existing SMEs. Also discussed are the possibilities that can be used for further research in the future.

papers were released because they were not in accordance with the focus of the study. After screening there were around 20 articles that had relevance to research. P2P topics are still alittle discussed because it is a relatively new topic in the financial field. The articles that are included in the criteria are

(a) English-language articles (b) The topics of discussion

## III. RESULT

P2P lending, known as Person to Person Lending, peer-to-peer investing, social lending, reciprocal lending, or peerlending is about people who lend money to other people without using traditional lending systems such as banks. In addition to the individual lending process, it can also involve business entities or entrepreneurs SMEs because the amount involved in this transaction is not too large [7]. The procedure that is present in P2P lending can be described as follows:

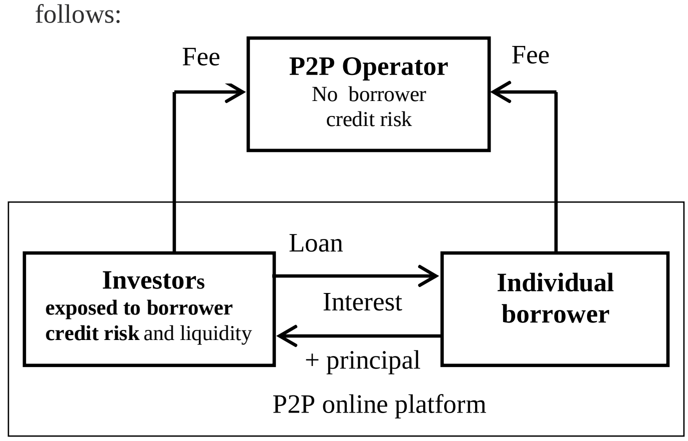


**Figure 2. The Scheme of the P2P Lending Model,** [8]

Prospective borrowers and prospective lenders must make P2P accounts. This account will require the user'spersonal data such as name, address, telephone number, and bank account. The P2P lending platform will give credit ratings to borrowers based on the information provided. The loan issuance process is not as complicated as that done by the Bank, because it uses Big Data Analysis and rating agencies in conducting surveys and

**Table 1. The Advantages and Disadvantages of P2P**

| | Description | Ref |
|---|---|---|
| **(+)** | a. The attraction for borrowers is the potential to access credit (if rejected by traditional lenders) and/ or the possibility of receiving more attractive interest rates. | [8,12], [13, 14] |
| | b. P2P is an innovation that uses new techniques to overcome financial friction such as information asymmetry and transactional costs. | [8] |
| | c. P2P offers borrowers a lower interest rate than the bank usually offers. | [15] |
| | d. More flexible, faster, and transparent because it uses online platforms. | [4,15], |
| | e. P2P operational costs are not too administrative and hierarchicaloverload. | [15,16] |
| | f. Borrowers can obtain loans at lower levels without collateral, while lenders can get a higher return oninvestment compared to depositproducts at the Bank. | [12],[4] |
| | g. P2P lending operators conduct their own assessments of the feasibility of loans that they offer in the form of financial advice. | [17] |
| | h. P2P allows direct interaction between borrowers and lenders so that the lending process is easy. | [12] |
| | i. The accessibility of services related to housing is not limited by the region sothere is equal distribution of credit. | [4, 7] |
| | j. The required documents are few, at least only identity validation. | [4] |
| | k. Increase financial inclusion. | [4] |
| | l. The number of loans through P2P lending is limited. | [18] [19] |
| **(-)** | a. Since it is a new type of financial service that is still being developed, the laws and regulations are not yet specifically designed. | [5] |
| | b. Credit risk assessments are left to individual lenders. Thus, there is a possibility of misrepresentation of borrowers in terms of their creditworthiness. | [20] |
| | c. The actors show herding behavior when they face uncertainty risks such as information asymmetry. | [15] |
| | d. Money still has to be deposited into a bank account. | [17] |
| | e. The possibility of getting a loan depends on whether or not the information provided is complete. | [4] |

**Lending (As a Borrower)**

evaluations [9].

Furthermore, if the proposed credit has been received, the borrower is permitted to make a loan application that contains the loan amount, maximum interest rate, loan destination, and other borrower preferences. This loan requestis then offered to investors. Based on the information provided, investors will use it as an assessment material. In the end, investors must bear credit risk instead of the P2P Lending platform. [10]

Finally, the approved loan will be transferred from the lender to the borrower's account. As for the return mechanism, the borrower will transfer back to the lender at maturity [11].

From the results of the literature review it can be summarized the characteristics of the advantages and disadvantages of P2P lending from the side of the borrowerare as follows:

By considering the advantages and disadvantages of P2P lending as access to financial gain, the owners and managers of SMEs need to be vigilant before deciding to make funding through the platform, including:

a. Registered or licensed by the government

Many illegal P2P circulating in the Google Play store application have caused people to be tempted by the convenience of online loans. Ensure that the intended P2P lending has been registered with the authority of the local institution as a regulator or supervisor. This will ensure security if a violation occurs, the authorities can impose sanctions.

b. Have an Official Website

P2P lending organizers are required to provide clear information and transparency to the public, both lending systems and procedures, thereby reducing the occurrence of information asymmetry.

c. Understand the Terms and Conditions that apply

There are still many borrowers who ignore the amount of interest and loan penalties, even though the interest and penalties will affect the amount of the bill to be paid. Before making a choice to make a loan, you should do asurvey and read in detail the structure of the fees imposed by the platform and the terms and conditions that apply so that the debtor does not bear the risk of loss or feel disadvantaged. However, it does not rule out the possibility of borrowers obtaining funding with low interest rates compared to bank interest rates even though it is not supported by guarantees and the risk of relatively large loan amounts for lenders. This happens since many lenders don't make a profit but do it based on social considerations [7].

d. Borrow as needed

Some people make mistakes in making loans online. With the convenience obtained, sometimes they borrowin large enough quantities, causing difficulties when making interest payments and installments. In some countries, there is government interference to determinethe maximum loan size. For example in Indonesia, the Otositas Financial Services provides a maximum benchmark of loans of 30% of income obtained with the aim of facilitating debtors in making bill payments. Withthe loan system according to capability, it will indirectly educate the debtor who is responsible and has a positivevalue in the eyes of the Bank so that it is possible to getcredit from the Bank in the future.

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## .CONCLUSION

As with other market phenomena, the characteristics of P2P lending have weaknesses discussed above, but this does not reduce the actual benefits of providing funding. The presence of P2P is intended to increase financial inclusion, especially in the utilization of credit for SMEs. Thus, the assumption that the existence of P2P can disrupt banking can be broken. P2P can take the role of setting up SMEs from creditworthy to bankworthy. P2P loans will increase the capacity of SMEs so that later it will become bankable to access bank credit.

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