

## **Business Agility Strategy: Peer-to-Peer Lending of Fintech Startup in the Era of Digital Finance in Indonesia**

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— *Review of* —  
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### **ABSTRACT**

Technological developments have encouraged financial technology literacy where financial technology (Fintech) startups come into the world of peer-to-peer lending to bridge the gap between conventional banking and those who cannot get capital from a bank. The technology allows the process of financial facilitation to be more convenient, faster, and more cost-efficient. Fintech has a big opportunity in Indonesia and at the same moment, the government has covered Fintech customers with the regulation of Authority of Financial Services Number 77/POJK.01/2016 about money lending services based on information technology. This study is intended to illustrate the business agility strategy of Fintech companies which perform peer-to-peer lending. The method used in this study is qualitative research with descriptive approach. The data collection technique applied is by literature study. The result shows that P2P lending companies have already done a business agility strategy to grab their customers in the era of digital finance in Indonesia. By using the technology platform, they make a simple application for gaining competitive advantages.

Keywords: Strategy, Financial Technology, Fintech, Peer-to-Peer Lending.

### **1. INTRODUCTION**

The rapid development of technology eliminates limitations and opens up various business opportunities. The internet has the potential to connect everyone and everything. A competitive business environment causes new companies or startups to develop a strategy to dominate the market which will drive the need for business agility. Fintech startups use this opportunity to grab the market. Every company needs to make an agile action to support its adaptability. Agility is the core of the fundamental requirement of all Fintech startups to succeed. According to Dove (2001), agility derives from both the physical ability to act (responsive ability) and the intellectual ability to find appropriate things to perform (knowledge management).

The technology also influences the financial industry in which the era of financial literacy is coming. Transformation in technology triggered by many companies has changed their platform to business digitalization (Hendriyani & Raharja, 2018). Fintech comes to simplify all financial affairs with a wider reach through a collaboration between government, banks, institutions, e-commerce, startup, and telecommunication. With the emergence of the Fintech era, startup companies can take a banking role in managing finance. Fintech in Indonesia is growing to Fintech 3.0 in which many independent

technology companies (startups) join the financial market. Fintech has a big market in Indonesia because based on Indonesia Fintech Association, it is only 36% of Indonesian people who have bank accounts and based on DailySocial.id, there are still forty-nine million SMEs in Indonesia which have never been in contact with a bank. People who use Fintech and specifically have made three transactions or more have greater confidence in the legal protection of financial transaction, reliability, stability, and responsiveness (Paripunyapat & Kraiwanit, 2018).

Based on Bank of Indonesia (2016), the share of credit to Gross Domestic Product is only fulfilled through financial banking of 34.77%. This reflects that the market potential can be taken by Peer-to-Peer (P2P) Lending which is as much as 65.23% without having to reduce the market share of the banking. It means many Indonesian people are unwilling to deal with the banking process because of its complicatedness, no access to a region, and lack of knowledge about banking products. A wide Indonesian market has not been fully exploited by the formal financial sector which also shows the magnitude of the potential of Fintech.

P2P lending in Indonesia is a financial innovation armed with platforms that bring together both lenders (investors) and borrowers in a company. P2P lending grows rapidly in a short time and successfully manages transactions with a significant value that can be optimized through a collaboration with banking. Indonesia Fintech Association (2016) states that Fintech players in P2P lending are 17% out of all Fintech players in Indonesia.

Based on the explanation above, this study aims at describing the business agility strategy, namely peer-to-peer lending in Fintech startups to raise the market share.

## 2. LITERATURE REVIEW

### 2.1. Strategy Business Agility

The success of a company depends on its strategy design that matches the needs and desires of customers so that the value provided to them increase and they become loyal. The changes in customer paradigm and behavior due to technological developments must be responded as quickly as possible by the company. The word 'strategy' is derived from the Greek word *strategos* which means the art of war. A strategy should be agile and able to adapt to different situations to maintain competition (Eisenhardt & Brown, 1998). Business agility is a company strategy to succeed in turbulent environments. According to Evans (2002), the following principles describe the forces driving the digital economy which demands business agility. Business agility involves shaping technology. It is achieved via m-business. In addition, every business will become an m-business so it will drive both business and technology transformation. Industry convergence creates new threats and opportunities. Meanwhile, Smith and Sidky (2009) say that agile principles should be pursued to embrace change; plan and deliver software frequently; use human-centric methods; not abandon practices, disciplines, focus on collaboration and communication; achieve technical excellence, and engage in customer collaboration.

Business agility strategy is defined as an ability to develop and to detect opportunities and threats of a company by using its capability to launch an appropriate response. The company should be able to judge the benefits and risks in initiating action and execute it with competitive speed and success (Hooper et al., 2001; Sambamurthy, et al., 2003; Yang and Liu, 2012; and Van Oosterhout, et. al 2006). The strategy is the most obvious keystone to have the ability to transform and renew business model strategy. Agility is considered as the 'thoughtful and purposive interplay' in the part of top management between three 'meta-capabilities', such as strategic sensitivity, leadership

unity, and resource fluidity (Doz and Kosonen, 2010). Agility methods have emerged largely from practices as a response toward complicated managerial controls which seek to address the so-called ‘software crisis’ (Gamad, Leticia C, 2018). Lin et al., (2005) states that the foundation of company agility lies in the integration of system information/technology, people, business process, and facility. The purpose of company agility is to enrich customer and employee satisfaction. An agile company, therefore, can gain competitive advantages by providing lower operating costs, satisfying customer requirements, quickly introducing new products, and eliminating non-value added activities (Nzewi and Moneme, 2016).

## 2.2. Peer-to-Peer (P2P) Lending

Financial technology is an emerging phenomenon for rapid technology. Technology makes customers go online anywhere and change their lifestyle. Fintech is considered as a disruptive innovation because it destroys the conventional market. One of the features in Fintech is Peer-to-Peer (P2P) lending. It is a new platform of financial transaction that passes a series of conventional intermediary by directly connecting borrowers and lenders (Yum,2012). Almost all interactions between a lender and a borrower occur through website interface where the borrower submits a loan request and the lender chooses to fund that request or not (Larrimore et.al, 2011).

Although P2P lending is a profitable business at the moment, it has a high risk like asymmetric information and moral hazard of the borrowers (Feng et.al, 2015). Feng et al. (2015) also describe the comparison between the traditional loan financing market and the lending market.

**Tabel 1: The traditional Loan Financing Market vs Lending Market.**

Major Aspect	Traditional Loan Financing	P2P Lending
Interest Rate	Low-Medium	Medium-High
Loan Amount	High	Low
Collateral/Endorsement	Yes	No
Party Involved	Borrower, Bank	Borrower, Lender, Platform
Regulation/Supervision	Strict	Loose
Process	Complex, Long	Simple, Fast
Risk	Low	High
Transaction Cost	High	Low

Sources : Feng *et.al*, 2015

Klaft (2008) confirms that the rules applied in P2P lending are very similar to those in the traditional banking system. Borrowers with weak credit-rating, who cannot get funding from a traditional banking-system, are unlikely to apply via P2P lending. According to Milne and Parboteeah (2016), competitive advantages of P2P lending can be grouped in four categories: (1) a better rate of return offer than the rate available in bank deposit together with relatively low fee for borrowers; (2) provision of credit to some categories of borrowers that are unable to access to bank lending; (3) a perception that P2P lending is more responsible and having greater social value than conventional banking; and (4) finally technical innovation that improves the quality and speed of

service to both borrowers and lenders. P2P lending quickly spreads globally because of rapid technology.

### 3. METHOD

The method used in this study was qualitative research with descriptive approach. The data collection techniques applied was by literature study. Based on the data from the Indonesia Fintech Association until March 2017, the number of the company that has business in peer-to-peer lending is 23% from 153 companies. The writers took five companies randomly as the object of this study to show their business agility strategy. Those five companies are KoinWorks, Amarth, Investree, Crowdo, and Modalku.

### 4. RESEARCH AND FINDINGS

A study at P2P lending companies in Indonesia conducted through data collection technique and documentation study obtains the following results:

#### 4.1. KoinWorks

KoinWorks is a Fintech Lending Indonesia company serving P2P lending through online investment with innovative learning machine, connecting its investors with the borrowers in an up-to-date technology platform. KoinWorks is the pioneer of Fintech and has been registered in the Financial Services Authority. KoinWorks builds its business agility strategy by focusing on small online business, education, health. It collaborates with Lazada and Tokopedia. This kind of partnership helps to provide a recommendation for merchants who will get a loan from KoinWorks. Investors can invest from Rp100,000 and borrowers can apply for a low-interest loan. The borrower is given a virtual account for the payment of the loan with the period six months to two years. The loan innovation from KoinWorks are Smart Coins, Healthy Coins, and giving lower interest rates. Smart Coin is intended for the certain institution/educational institution to develop supporting infrastructure in education such as building renovation or building new facilities. Healthy Coins helps financial healthcare and to reconcile patients with KoinWork partner institutions or health institutes e.g. Eye Clinic Nusantara (KMN) for cheap and easy eye funding options. KoinWorks, Smart Coins, and Healthy Coins have a simple and affordable lending system.

#### 4.2. Amarth

Amartha has just operated as a Fintech company since April 2016 with twelve branches in West Java and Banten. They enter the Fintech business by opening a loan marketplace especially for women who have a micro business. The company successfully combines micro and SME business partners with investors. Until the end of March 2017, they have reached 70 billion rupiahs. Amarth uses credit scoring system to analyze the feasibility of prospective borrowers so that the investor has a stack of complete and comprehensive information before making any investment decision. The investment offering starts from Rp3 million to Rp100 million.

Business agility strategy of Amarth is shown by giving loan investment in group. Every group consists of fifteen to twenty people. The lending system in group is applied in order to minimize bankrupt members, so that if any member cannot make payment, then it will be done joint responsibility. Amarth has served 26,000 micro business owned by female entrepreneurs with the total fund channeled Rp49 billion and 0% default over

five years in a row. Amartha also utilizes android based technology (mobile apps) to introduce their products via online and social media and offline approaches by creating various discussions and events that are in a line with targeted groups. To build customer trust, Amartha always builds a mutually beneficial and transparent partnership.

#### 4.3. Investree

Investree provides an exclusive space for sellers and buyers to meet, select, analyze, and approve borrowing applications in order to generate qualified funding to offer to lenders. Investree has mastered 36% of SME creative industry with 0% failure rate. The business agility strategy of Investree is shown to be the pioneer of P2P lending that helps financial problems and funding the creative industry with the principles of integrity, innovation, and professional values. In a line with Investree's mission, it is open, safe, and easy in lending. Investree does not charge the interest borrower highly and no cost burden at all to the lender. The borrower cost is based on a low level of difference between the amount paid by the borrower and the amount of the lender's profit called origination fee. These costs are included in the level of bond earned by the borrower so they are free of hidden charges.

#### 4.4. Crowdo

Crowdo is one of the largest and most prominent regional P2P investments in Southeast Asia which is already a member of Indonesia Fintech Association licensed by the Monetary Authority of Singapore and the Malaysia Securities Commission. Crowdo's mission is to connect the best SMEs in Indonesia to the global investor community. Crowdo has 31,000 members spread across the world in multiple markets and multiple currencies.

The business agility strategy is that the loan period can last for three months to twelve months so the time of return on investment is quite fast. The application "Crowdo Connect" is convenient and easy, free of charge/no hidden costs. The investment starts from Rp1 million only.

#### 4.5. Modalku

PT. Mitrausaha Indonesia Group (Modalku) is a P2P Lending company specifically for SMEs established in 2016. Until February 2017, the capital has disbursed Rp95 billions of fund. The capital loan disbursement is around Rp50 million—Rp2 billions with the tenor from three months to twenty-four months. Modalku divides two types of borrowers who borrow capital for the e-commerce debtor. The loan minimally starts from Rp5 millions and anyone who plays in the e-commerce business, the credit at least starts from Rp50 million. The tenor is twenty-four months with an interest between 9% and 24% per year. Investors can earn a 15% profit whereas repeater investment can earn 25%. For the repayment, Modalku gives a fine ranging from 2% to 6% of the remaining principal.

Modalku has a partnership with Sinarmas Bank. The partnership is started from the attention of both parties to the "missing middle" segment in Indonesia. "Missing middle" is a business segment with the revenue between Rp10 million and Rp100 million which has the potential and capacity to grow. However, it is hampered by the lack of access to finance. Sinarmas Bank will also be the escrow agent that manages the shelter account during the lending process. Modalku launches a mobile app service to ease the lenders. All of P2P Lending company above have strategy business agility as that the following results:

**Tabel 2 : Strategy Business Agility**

Author & Concept	Strategy Business Agility	P2P Lending Company				
		KoinWorks	Amartha	Investree	Crowdo	Modalku
Lin <i>et.al.</i> , 2005	The integration of system/technologies	Yes	Yes	Yes	Yes	Yes
	People,	Yes	Yes	Yes	Yes	Yes
	Business processes	Yes	Yes	Yes	Yes	Yes
	Facilities	Yes	Yes	Yes	Yes	Yes
Smith and Sidky , 2009	Plan and deliver software frequently,	Yes	Yes	Yes	Yes	Yes
	Use human-centric methods;	Yes	Yes	Yes	Yes	Yes
	Disciplines	Yes	Yes	Yes	Yes	Yes
	Collaboration communication	Yes	N.A*	Yes	N.A*	Yes
		Yes	Yes	Yes	Yes	Yes

N.A\* : Not Available

From perspective Lin et al. (2005), all P2P lending companies have done business agility strategy. However, the perspective of Smith et al. (2009) shows that not all P2P lending companies above make a collaboration strategy, such as Amarta and Crowdo. Amarta and Crowdo depend on their branches to be competitive.

**Tabel 3 : Peer-to-Peer (P2P) Lending**

Author & Concept	P2P Lending	P2P Lending Company				
		KoinWorks	Amartha	Investree	Crowdo	Modalku
Milne and Parboteeah (2016)	low fees	Yes	Yes	Yes	Yes	Yes
	provision of credit to some categories	Yes	Yes	Yes	Yes	Yes
	social value	No	Yes	No	No	No
	quality and speed of service s	Yes	Yes	Yes	Yes	Yes

Sources : Results of the researcher's analysis(2017)

Table 3 show that from the perspective of Milne and Parboteeah (2016), all P2P lending companies have done various actions to increase the competitive advantage with a lower fee than traditional banking, giving provision of credit for individual and company, such as the loan for a new startup and more pace in the process. However, out of five P2P lending companies, it is just Amarta which really focuses on social value by targeting the customer to women who have a micro business.

## 5. CONCLUSION AND SUGGESTION

### 5.1. Conclusion

P2P lending companies have a big opportunity in Indonesia because Indonesian

people who have bank account only 36% of the population. Lifestyle change and affordable technology are key developments. P2P lending companies have a more mobile and agile capability because there are not many binding government rules yet. Innovation and differentiation and their convenience are the driving force for enhancing competitiveness and dominating market share.

## 5.2. Suggestion

As a new product on the market, P2P lending companies must improve their communication program and create continuous education programs to increase customer trust. The government as the regulator is expected to continue to support the growth of P2P lending company in order to grow and help to disseminate the P2P lending program as a program that gets support from the government.

P2P lending company as a startup company should improve an aggressive collaboration to grow and always improve fast response with customer engagement.

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