

OJK Encourages Productive Loan in New Peer-to-Peer Implementing Regulation: What is the Impact for Businesses?



In November 2023, Indonesia's Financial Services Authority or OJK (*Otoritas Jasa Keuangan*) introduced a new implementing regulation on peer-to-peer or P2P lending (which itself is regulated by OJK Regulation No. 10/POJK.05/2022 on Information Technology-Based Collective Financing Services ("**P2P Regulation**").

The new implementing regulation, Circular Letter No. 19/SEOJK.06/2023 on the Organisation of Information Technology-Based Collective Financing Services ("**Circular Letter**") regulates the provisions in the P2P Regulation in more detail, most notably on maximum economic benefit, scoring criteria of borrowers, level of loan quality, and performance publication. Clients should note that the implementing circular letter for the previous regulation, namely OJK Circular Letter No. 18/SEOJK.02/2017, has not been revoked. As it is also in line with the new Circular Letter, it remains valid.

In addition to giving more clarity, the Circular Letter also grants broader protection to borrowers and encourage productive loans in the P2P lending industry. It seeks to do both by, among others, setting out lower maximum economic benefit limits (all costs incurred, including interest rates) for P2P loans in general and even lower maximum economic benefit limits for P2P productive loans that can be charged

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to borrowers. While this protection may be beneficial for borrowers, they may be challenging for the P2P lending companies.

We take a closer look at the Circular Letter below.

Maximum Economic Benefit Limit, Maximum Rates, and Fines for Overdue Payments

Maximum economic benefit limit

Under the Circular Letter, OJK limits the maximum economic benefit that a P2P lending company can impose on each loan. Previously, a P2P lending company can charge additional fees **on top** of interest rates, this is no longer the case. Now, a P2P lending company must comply with the maximum economic benefit limit, which is to be calculated by adding:

- (1) The interests, margin, or profit sharing under the P2P loan;
- (2) The administration fee, commission fee, or platform fee for the P2P loan; and
- (3) Costs other than late penalty, stamp duty, and taxes.

P2P lending agreements signed before 8 November 2023 are exempted from the maximum economic benefit limit. Meanwhile, new P2P lending agreements (those signed after 8 November 2023) must comply with the maximum economic benefit limit depending on the type of loan and in stages:

Maximum Economic Benefit Limit			
	Effective from 1 January 2024 (until 31 December 2025)	Effective from 1 January 2025 (until 31 December 2026)	Effective from 1 January 2026 onwards
Type of Loan			
Productive loan	0.1% per calendar day	-	0.067% per calendar day
Consumption-related loan	0.3% per calendar day	0.2% per calendar day	0.1% per calendar day

Below is the formula on how a P2P lending company can calculate the percentage of their maximum economic benefit limit:

$$\text{Economic Benefit \%} = \frac{\text{Total economic benefit}}{(\text{Loan in the loan agreement} \times \text{tenor})}$$

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For a better understanding at how the old and the new formula work, let us look at the illustration below.

A P2P lending company facilitates a productive P2P loan amounting to IDR1 million from Lender X to Borrower Y on 5 January 2023. The tenure of the loan is 90 days. The P2P lending company imposes an interest of IDR45,000 or 0.05% per calendar day, as well as charging an administration fee of IDR100,000 and other costs of IDR50,000.

Old formula (before 8 November 2023)

Under the old formula, the economic benefit is:

$$\text{Economic benefit} = \text{IDR45,000}$$

New formula (after 8 November 2023)

Meanwhile, under the new formula, the economic benefit is:

$$\begin{aligned} \text{Economic benefit} &= \frac{\text{Interest} + \text{Administration Fee} + \text{Other Costs}}{(\text{Loan} \times \text{Tenor})} \\ &= \frac{\text{IDR45,000} + \text{IDR100,000} + \text{IDR50,000}}{(\text{IDR1,000,000} \times 90 \text{ calendar days})} \\ &= 0.2166\% \text{ per calendar day} \end{aligned}$$

From the illustration above, the economic benefit percentage under the old formula versus that under the new formula can be significantly different. As we can see, the economic benefit percentage under the old formula for this illustration is 0.05% per calendar day. Thus, it complies with the maximum economic benefit limit for productive P2P loans of 0.1% per calendar day.

However, under the new formula, the economic benefit percentage for this illustration is significantly higher at 0.2166% per calendar day, which is about twice the economic benefit percentage under the old formula. Here, the maximum economic benefit for the same illustration does not comply with the maximum economic benefit limit for productive P2P loans of 0.1% per calendar day, and consequently, to comply with such a limit, the P2P lending company must lower its administration fee and costs.

Maximum rates and fines for overdue payments

The Circular Letter also requires a P2P lending company to comply with maximum rates and fines for overdue payments. Again, P2P lending agreements signed before 8 November 2023 are exempted from these requirements on maximum rate and fine, while P2P lending agreements signed after 8 November 2023 must comply with these requirements depending on the type of loans and in stages:

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	Maximum Fine Limit		
	Effective since 1 January 2024 (until 31 December 2025)	Effective since 1 January 2025 (until 31 December 2026)	Effective since 1 January 2026 onwards
Type of Loan			
Productive loan	0.1% per calendar day	-	0.067% per calendar day
Consumption-related loan	0.3% per calendar day	0.2% per calendar day	0.1% per calendar day

Under the Circular Letter, both the maximum economic benefit and the maximum rates and fines for overdue payments that a P2P lending company can impose on the users must not exceed 100% of the total loan value. This is in line with the figures agreed by the members of the AFPI (*Asosiasi Fintech Pendanaan Bersama Indonesia*), an organisation that accommodates fintech P2P lending or online funding fintech entrepreneurs in Indonesia.

Will the Circular Letter present a challenge for businesses?

In particular, the new economic benefit limits protect borrowers from high interest rate and hidden fees. It is likely that this wider protection for P2P borrower would increase the attractiveness of P2P lending for the public, while also encouraging more productive P2P loans.

On the other hand, the economic benefit limits are significantly lower compared to the maximum of 0.4% per calendar day agreed among the members of AFPI. Moreover, the limit under the Circular Letter may significantly affect the revenue of P2P lending companies by effectively limiting the amount of interest rate, administration fee, and other fees that they can charge to borrowers. As seen in the above illustration, under the new formula, a P2P lending company may need adjust its fees and costs to comply with the maximum economic benefit limit in the new Circular Letter. Clients should also note that P2P lending companies will need to lower its fees and costs gradually until 2026 pursuant to the new Circular Letter as mentioned in the table above.

Scoring Criteria for Borrower

Besides the foregoing limits, OJK also seeks to prevent overborrowing by requiring P2P lending companies to assess the borrower before granting a loan. Under the Circular Letter, a P2P lending company must observe specific scoring criteria for borrowers, including their eligibility and ability to fulfil the loan payment obligations. This assessment considers several aspects, including a borrower's character, repayment capacity, capital, condition of economy, and collateral.

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For repayment capacity, as adopted from the banking industry, a P2P lending company must examine the ratio between the amount of the principal payments of the prospective loan and the economic benefit to be paid by the borrower against the income of the borrower, which is set by in these stages:

Effective Date of the Applicable Maximum Ratio	Maximum Ratio
8 November 2023 until 7 November 2024	50%
8 November 2024 until 7 November 2025	40%
From 8 November 2025	30%

For example, if a borrower has a monthly income of IDR10 million, he may only borrow a maximum of IDR5 million (which represents the principal amount of the loan and the economic benefit) from 8 November 2023. That maximum amount will continue to decrease as the year goes on. From 8 November 2024 to 7 November 2025, the borrower may only borrow a maximum of IDR4 million.

Furthermore, a P2P lending company must also ensure that a borrower is not receiving loan from more than three P2P lending companies at the same time, including from the P2P lending company conducting the assessment.

This assessment to repayment capacity will prevent overborrowing by limiting the maximum loan that a prospective borrower can have at the same time by considering their income. This can also lower the risk of non-repayment due to overborrowing.

Level of Loan Quality

A P2P lending company must now assess the level of quality of loan by the following classifications:

Classification	Details
Performing	No delay in repayment
Special Mention	A delay in repayment of up to 30 calendar days
Substandard	A delay in repayment of 30 to 60 calendar days
Doubtful	A delay in repayment of 60 to 90 calendar days
Non-Performing	A delay in repayment of more than 90 calendar days

These criteria are adopted from the banking and multi finance industries. This information of level of loan quality can give lenders more insights about the loans in P2P platform.

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Performance Publication

Lastly, the Circular Letter requires a P2P lending company to publish the performance of its loan on the main page of its website, application, or electronic system. The information must detail, at the minimum, the value of the loan distributed, the number of lenders, the number of borrowers, and the payment success rate.

As for the payment success rate, a P2P lending company must publish the detail based on four periodic times of such payment success rate, with the following format and details:

Format	Details
TKB0 = xx.xx%	payment success rate in the settlement of loan obligations on the due date
TKB30 = xx.xx%	payment success rate in the settlement of loan obligations up to 30 calendar days from the due date
TKB60 = xx.xx%	payment success rate in the settlement of loan obligations up to 60 calendar days from the due date
TKB90 = xx.xx%	payment success rate in the settlement of loan obligations up to 90 calendar days from the due date

Please note that this is stricter from OJK's previous stance, which only required a P2P lending company to publish TKB90 only. Nonetheless, this stricter requirement will give more insights for the public before deciding to borrow or lend in the P2P platform.

Conclusion

To sum up, the elaborative regulatory framework in the Circular Letter marks a significant stride in the P2P lending sector. The widening of consumer protection, supported by transparency, will certainly foster an environment of responsible growth within the industry. On the other hand, P2P lending businesses are subject to a heavier risk. Financially, they may also see a decreased revenue due to the limitation on the fees and costs that they can impose on the borrower in each P2P loan.

So where does that leave the P2P lending businesses? In our view, while the Circular Letter may present certain compliance challenges, it simultaneously paves the way for credibility and growth within the P2P lending industry. Considering that the P2P lending industry is increasingly playing a more prominent role in Indonesia's financial ecosystem, it is expected that the OJK and other authorities will introduce stricter regulations, especially with respect to compliance.

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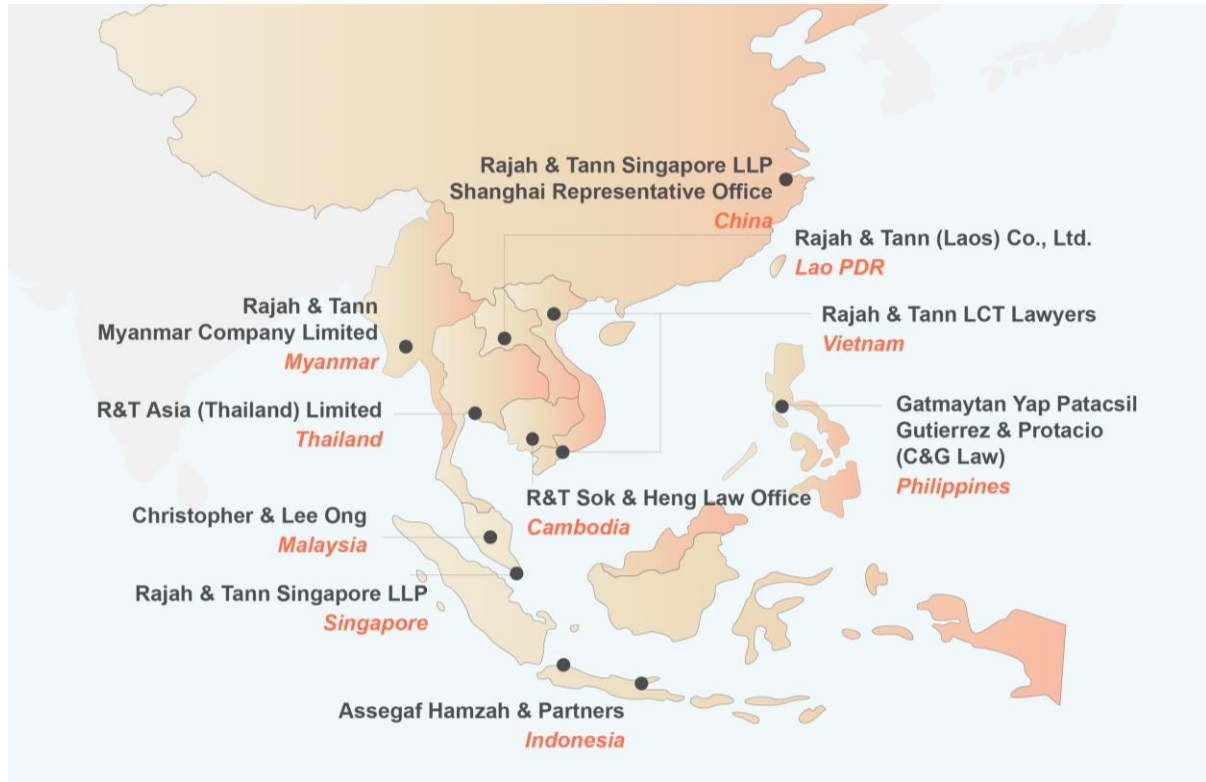
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