The Fintech Edge

First Edition : Peer -To-Peer Lending

November 2018

KPMG Siddharta Advisory
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Foreword

KPMG Indonesia is excited to present its inaugural edition of The Fintech Edge. The first edition of our financial technology (fintech) report focuses on the Top 10 players in the fast growing Peer-to-Peer (P2P) lending sector.

Financial services are the backbone of any economy, enabling citizens and businesses to save, invest, and safeguard their futures. Yet in several nations across the world, a large portion of the population lacks access to basic financial services, thus hindering economic growth and perpetuating poverty.

Emerging financial technologies have the potential to resolve this problem. The World Bank has lauded Indonesia as the country in East Asia with the most improvement in bringing its citizens into the formal financial system in the past three years. Close to 50% of adults in Indonesia now own a bank account, reflecting a true turning point in the country's path to financial inclusion.

Uniquely, Indonesia has high mobile subscription and internet penetration rates relative to Indonesia's population - presenting a massive opportunity for P2P lending platforms. Given the high level of connectivity, both lenders and borrowers can be connected in an extremely cost efficient manner. This advantage has resulted in more than 200 P2P lending platforms in Indonesia, of which 73 are registered under OJK, and only one that has officially gained its OJK license. While the interest in the space has grown, the scale is unlike China, which has seen a massive boom in P2P and an alarming number of busts. But like China, the risk of P2Ps becoming a magnet for criminality more recently and fraud is a very real threat for Indonesia too.

Hence it is important the P2P players can demonstrate the right balance between protecting the lender through a strong risk management framework, good level of transparency on loans and high service levels for both lenders and borrowers. This will help ensure sustainability for the players and viable market where digital trust can be established.

We appreciate the work done by Indonesia's Financial Services Authority, Otoritas Jasa Keuangan, ("OJK") and Bank Indonesia ("BI") to assist the public agenda to regulate this space. It is critical these bodies are supported as they continue to help ensure there is a long term future for the P2Ps in Indonesia. We would also like to thank them for their support in this publication.

These are exciting times for fintech and we hope to see The Top 10 and, indeed, all players in this space forge new success in the road to greater financial inclusion.

Yours Sincerely,

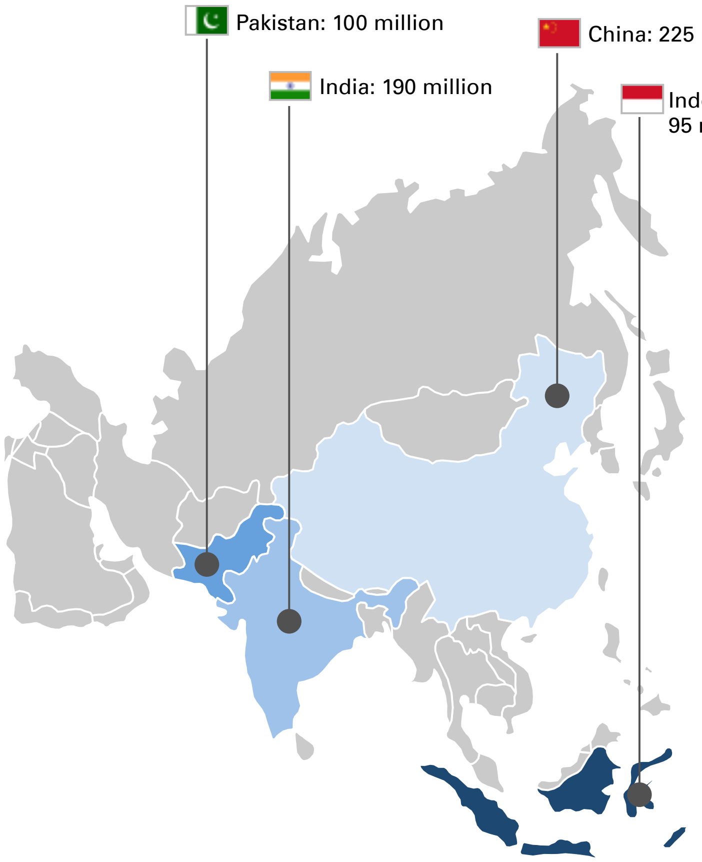
James Loh
Financial Services

Note: All the statistics issued on these players are up to date as of August 2018. Additionally, all information in this publication has not been audited, and is based on both external sources and direct confirmation from all parties involved. The order of which the players are illustrated is purely alphabetical and not based on rank or preference.

1. A massive opportunity for P2P

Globally, approximately 1.7 billion adults remain unbanked, a little over one-thirds of which are located in China (225 million), India (190 million), Pakistan (100 million), and Indonesia (95 million) according to the Findex report from the World Bank.[1] Given the geographical challenge and the unavailability of credit history of the unbanked, banks have found it difficult to reach this segment in a profitable manner.

Figure 1: Asian Un-banked Population



Zopa, one of the first P2P lending platforms that was founded in 2005, saw this opportunity to satisfy the high demands of borrowers with little to no credit history records through matching them to yield-hungry investors.

As a pioneer of this industry, Zopa's success was paramount, having issued over £2.9 billion in loans.[2] The ability to cost effectively tap into the market of the unbanked through the use of the mobile phone and digital technology with an offer attractive rewards resulted in a proliferation of P2P lending platforms, across both developed and developing nations.

The number of these platforms is anticipated to rise at a compound annual growth rate of between 48.2% from 2016 to 2024,[3] which follows a report by Morgan Stanley that also predicts how marketplace lending will amount to US$490 billion in 2020.[4]

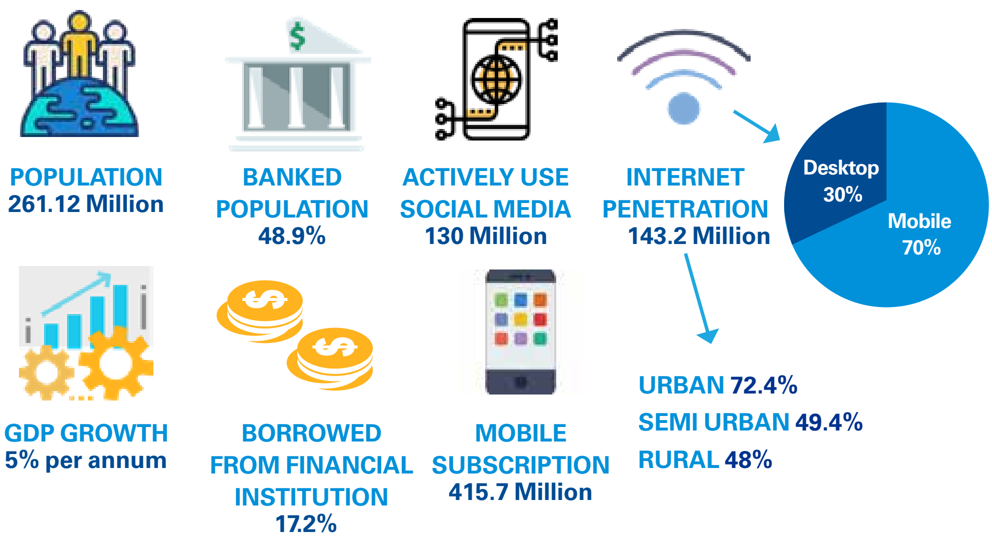
Indonesia is Southeast Asia's largest economy with a population of more than 260 million people. With a large youth population, burgeoning mobile phone and Internet penetration, Indonesia presents a unique reserve of untapped fintech opportunities. However, nearly 40% of Indonesia's large and youthful population remains unbanked.[5] Geographical challenges and the unavailability of credit history have made it challenging for banks to reach this unbanked segment profitably.

Within the unbanked segment, AFTECH reports that there are close to 49 million underbanked SMEs, further extending Indonesia's financial inclusion challenge to individuals and small businesses that are struggling to get loans at reasonable rates from commercial banks. It is estimated that limited credit access to such SMEs reduces Indonesia's GDP by nearly $130 billion, approximately 14% of the total.[6]

The expedited development of fintech in the last two years has increased Indonesia's GDP by IDR 25.97 trillion. Though the attention in fintech has historically been on payments, investments have moved towards lending, raising US$21 million in investments by the end of the last quarter of 2017.[7] There has also been a stark increase in the number of borrowers, having increased 38 fold.

High mobile and internet penetration and a burgeoning demand from both borrowers and lenders has paved the road to a boom of P2P lending platforms in Indonesia.

Figure 2: Statistics of Indonesia[8]



2. Lessons Learnt from Other Economies and the Road Ahead

Indonesia's P2P sector is still in its infancy, however the risk of P2Ps becoming a magnet for criminality remains a very real threat for Indonesia. In larger economies where P2P loan volumes have been growing exponentially, P2P platforms are now failing nearly as fast as they grew. The reasons are manifold, ranging from information asymmetry between players and platforms, to capital pool problems and illegal guarantees.

However, the most common cause has been the prevalence of operators who did not know how to properly run a P2P platform and lenders who quickly jumped at the opportunity for high returns without proper due diligence.

As a counter measure for failing P2P lending platforms, complex registration process and tightened legislation in areas, such as overly high interest rates, misuse of funds and exaggerated return figures, were implemented with the aim to crack down on illegitimate lenders.

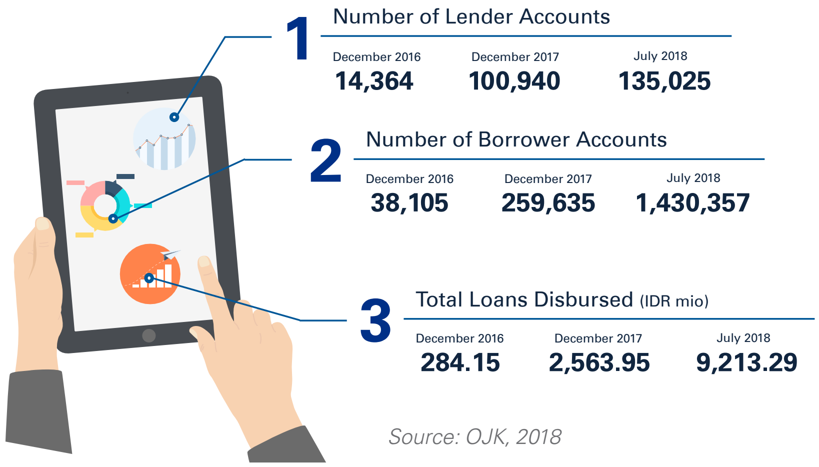
Having learnt from other economies, Indonesia enforces tighter regulations from early stages via two main entities, Bank Indonesia and Otoritas Jasa Keuangan (OJK). Bank Indonesia's regulatory scope is specific to payments while OJK functions as a supervisory arm to oversee P2P lending. In the interest of greater transparency, OJK has encouraged Indonesian P2P platforms to collaborate with banks. It is further assisted in the POJK 77/POJK.01/2016 that every lender and borrower is required to have bank accounts, with the exception of group lending.

A common consensus in the financial sector is that the development of marketplace-lending – specifically P2P lending – directly competes and diminishes the growth of the banking industry. However, in Indonesia, the fintech industry will be run parallel to that of banking. OJK acknowledges that banks were wary in the early P2P lending stages, but with increasing regulations, large banks are significantly more inclined to partner with these platforms. Bank Mandiri, amongst many others, acknowledged that it was a lot more difficult to economically reach the unbanked before the help of their P2P lending partners, Amartha and KoinWorks.

Initiatives to support the sector in Indonesia by the regulators include the setting up of the Fintech Office, the launch of the National Payment Gateway, and the establishment of the Fintech Regulatory Sandbox for P2P lending services. There are already 73 P2P lending services registered with OJK.

There is significant opportunity for all legitimate players, who continue to advocate great customer experience, transparency, and strong risk management.

Figure 3: Growth of P2P Lending in Indonesia



Source: OJK, 2018

3. About The Top 10

Out of the 73 OJK-registered local platforms, we have developed a list of the Top 10 through KPMG's internal scoring method. Coupled with OJK's key standards, we created a proprietary three-pronged scoring mechanism:

1. Risk Management
2. Transparency
3. Service Level

Interest rates were not included in our assessment as it has a direct correlation with the lender's risk appetite and the risk level of the loan profiles – higher risks come with higher returns. All analyses are unaudited and are based on and validated by direct interviews, surveys, and secondary research, where possible.

Figure 4: Scoring Criteria

The Top 10 in alphabetical order are:

- Akseleran (PT Akseleran Keuangan Inklusif Indonesia)
- Amartha (PT Amartha Mikro Fintek)
- CROWDE (PT CROWDE Membangun Bangsa)
- Crowdo (PT PT Mediator Komunitas Indonesia)
- Danamas (PT Pasar Dana Pinjaman)
- Gradana (PT Gradana Teknoruci Indonesia)
- Investree (PT Investree Radhika Jaya)
- KoinWorks (PT Lunaria Annua Teknologi)
- Mekar (PT Mekar Investama Sampoerna)
- Modalku (PT Mitrausaha Indonesia Grup)

The top 10 are all registered under OJK, but Danamas is currently the only platform with the official OJK license (the difference between registration and licensing can be seen under the 'Know Your Regulator' section). In our analysis, we found these platforms have risk management frameworks and tools such as credit risk assessment models, risk monitoring and collection strategies that work in conjunction with guarantees. This provides some comfort that credit risk is actively managed by the P2Ps and will help mitigate one the key risks in lending. They also provide a good level of transparency, everything from information on the borrower such as their management profile, date founded to loan particulars such as interest rates and default rates. The disclosure provides confidence that the platforms have gathered sufficient information to inform the lender of the credit risks inherent with the loan and lets the lender make a more informed decision. Service levels are our third criteria and these P2Ps have also demonstrated that they are serious about serving both lenders and borrowers by being responsive to queries, and notifications on late payments.

The following section succinctly explores profiles of the Top 10. All information within the profiles are attained through interviews and internal assessments. The purpose of this section is to increase awareness surrounding P2P lending, as well as provide the reader a basis of information for reference and personal interests.

The Top 10

AKSELERAN

"We aim to be the key enabler for Financial Inclusion in Indonesia, by opening up new investment channel for the society while providing easier loan access for SMEs, in the form of Peer-to-Peer Lending"
– **Akseleran Management team**

Company's Description

Akseleran (PT Akseleran Keuangan Inklusif Indonesia) seeks to turn financial inclusion into a reality in Indonesia through providing better access for investments as well as smoother funding channels to mid-sized SMEs. Within the wide scale of SME varieties, Akseleran focuses their funds towards contractors and suppliers in oil and gas, construction, and the creative industry. As a result, the product they offer to the borrowers is a short-term working capital credit loan with a tenor of 4 to 6 months. Having partnered with Andalan Finance and Indosurya, Akseleran is currently present in the whole of Jabodetabek, and has plans to further expand within Java in the near future. A key differentiator in Akseleran's business is their collateral risk-mitigation model. This means that for lenders, 99% of all loans are collateralized, 80% of that through security receivables and the remaining through inventory financing.

To date, Akseleran has issued over IDR 95 billion in loans to over 200 debtors, and is targeting to have disbursed IDR 200 billion by the end of 2018, and IDR 1 trillion in loans by the end of 2019. Outside of their business ventures, Akseleran also often engages in local service works. Most recently, the Akseleran team tended to the earthquake victims in Lombok through providing a donation that is of 1.5% of their total loans received.

Akseleran establishes strategies to increase their usersí satisfaction (e.g. user interface ñ user experience / UI ñ UX), as for example by updating their website regularly and launching Akseleran application for Android and iOS. Akseleran also has developed a new feature in their app namely an automatic investment by filtering criteria that can be set as lenderís wishes and credit simulation.

ESTABLISHED YEAR
2017

STAFF
> 40

DEFAULT RATE
0.60%

WEBSITE
www.akseleran.com

INTEREST RATE RANGE
07.00% - 17.00%

LENDER'S MIN. INVESTMENT
IDR 100,000

REGULATORY STATUS
Registered

BIGGEST INVESTORS
Parent Company of PT Bintraco DharmaTbk., a NewYork based family office

NO. OF LENDERS
> 20,000

FUNDING SERIES
A

ACCESSIBILITY*

*Note(s) : Under accessibility, the laptop icon denotes web-based acces (e.g. in desktop and mobile web) and the smartphone icon denotes access through mobile application in Android and/or iOS as limited to lenders' interface.

AMARTHA

"In Amartha, we are committed bridging Indonesia's informal economies through profitable, trusted, yet impactful investment. Through the opportunities that technology can provide, we strive to alleviate poverty – one family at a time." **– Andi Taufan Garuda Putra, CEO and Founder**

Company's Description

Amartha (PT Amartha Mikro Fintek) is a visionary in impact-financing through the empowerment of local environmental micro-economies solely focused on MSMEs owned by unbanked housewives in remote areas. The product offered to borrowers is a group-lending loan with tenors of 3, 6, and 12 months. As their transaction system is solely cash-based, disbursements and collections are done through over 700 local field agents who have familiarized themselves with their respective communities. However, Amartha does not simply hand money to these women. Instead, these women are encouraged to form 'trust groups', as Amartha calls them, so that the women will have a trusted group of friends to support the development of their businesses and remind them of payments. This, alongside financial literacy classes that are personally led by Amartha's team, creates a unique tightknit ecosystem of women surrounded by reliable people around them to remind them of, and hold them accountable to, late payments and encourage more of a sharing economy.

Because of their strong social efforts, Amartha was chosen as the winner amongst 700 other participants in InnovationXchange (iXc), an Australian Innovator Frontier that recognizes and awards companies who bring strong social impacts in the Indo-Pacific region. Currently, Amartha is already in over 5,000 villages all over Indonesia. Driven by the need to further reach out to women in isolated villages, Amartha is currently in the works to expand its footprints within Java and Sumatera, but more specifically, into their geographically remote villages.

ESTABLISHED YEAR
2010

STAFF (HQ)
135

DEFAULT RATE
0.02%

WEBSITE
www.amartha.com

INTEREST RATE RANGE
~15.00%

LENDER'S MIN. INVESTMENT
IDR 1,000,000

REGULATORY STATUS
Registered

BIGGEST INVESTORS
Mandiri Capital Investment (MCI), Beenext

NO. OF LENDERS
35,000

FUNDING SERIES
N/A

ACCESSIBILITY

CROWDE

"I believe that farmer's working capital is a big issue in which why CROWDE was established as a crowd-investing platform that enables farmers raise their working capital from crowd-investors with various schemes."
– Yohanes Sugihtononugroho, CEO and Co-founder

Company's Description

CROWDE (PT CROWDE Membangun Bangsa) saw that there is a core problem in the marketing, funding, and technological aspects of Indonesia's agriculture sector. These unbanked farmers, as identified by CROWDE, are very distrusting of governmental or foreign charity aids due to disappointing past experiences. To solve this, CROWDE differentiates themselves from other agriculture lenders through a strong community integration program, in which their team introduces to the farmers educational programs, behavioral tests, and financial literacy classes. Furthermore, to ensure the farmers that CROWDE is a dependable and open platform, they function on a 100% cashless, data-to-people model. This works through having field agents directly meeting the farmers, and then communicating their needs to either local markets or wholesalers/supermarkets, who then send the requested crops straight to the farmers. Such a cashless system also bridges the technological gap between farmers and digitized loan systems. Additionally, most common crops (such as corn, wheat, etc.) are fully insured in the case of a non-repayment.

Forbes 30under30 co-founder Yohanes Sugihtononugroho foresees having US$10 million of loans by the end of 2018 and increasing investor interests up to 12 times of what it is today. To achieve this, CROWDE is strongly educating the farmers in both financial management and crop handling to better both the farmers' and CROWDE's earnings.

ESTABLISHED YEAR
2015

REGULATORY STATUS
Registered

STAFF
± 40

BIGGEST INVESTORS
GREE Ventures

DEFAULT RATE
1.20%

NO. OF LENDERS
> 20,000

WEBSITE
www.crowde.co

FUNDING SERIES
A

INTEREST RATE RANGE
12.00% - 30.00%

ACCESSIBILITY

LENDER'S MIN. INVESTMENT
IDR 10,000

CROWDO

" Indonesia is set to be a Fintech powerhouse and Crowdo is leading the charge in performance and innovation. With Crowdo ACE, an Artificial Intelligence-powered Credit Scoring Engine, and the firm's expertise, Crowdo has generated competitive returns for institutional and retail investors while drastically reducing financing costs for businesses." **Leo Shimada, Group CEO and Co-founder**

Company's Description

Crowdo (PT Mediator Komunitas Indonesia) is an Artificial Intelligence powered marketplace for Lending and Investments. Having first been established in Singapore, Crowdo later came into the Indonesian market in early 2016. Crowdo's vision is to establish a regional smart fintech bridge based on two pillars: (1) attraction of foreign capital to augment restricted domestic credit, and (2) technology innovation. Locally, 50% of the credit is sourced from overseas and Crowdo assists the distribution of this capital to close to 20 different industries such as retail, consumer goods, services, and many more. Driven by this vision, Crowdo became the first P2P platform to fully commercialize their Artificial Intelligence (AI) technology in ASEAN called CROWDO ACE. It is built off of a proprietary technology infrastructure that has now passed the ISO27001 certification (the international standard that describes best practice for an Information Security Management Systems). Credit analysis is one of the many applications for Crowdo's AI technology, having invested in a 3-year AI development plan, specifically in pattern and data analysis, to further diversify its use case.

Currently, Crowdo's presence is most dominant in Java, Sumatera, and Kalimantan. However, with their strong international network and backing, Crowdo has plans in the near future to expand to a more nation-wide coverage. In this year alone, Crowdo has already committed to create market awareness and boost financial literacy in seven different cities. As of now, Crowdo has also successfully financed approximately 4,000 SME projects across Indonesia.

ESTABLISHED YEAR
2013

STAFF (HQ)
Undisclosed

DEFAULT RATE
0.30%

WEBSITE
www.crowdo.co.id

INTEREST RATE RANGE
12.00% - 30.00%

LENDER'S MIN. INVESTMENT
IDR 1,000,000

REGULATORY STATUS
Registered

BIGGEST INVESTORS
Gobi Partners

NO. OF LENDERS
> 40,000

FUNDING SERIES
Undisclosed

ACCESSIBILITY

DANAMAS

"Cepat Untung, Untung Cepat! Danamas selalu memberikan yang terbaik." – **Dani Lihardja, President Director**

Company's Description

Danamas (PT Pasar Dana Pinjaman) operates in a very niche ecosystem, in that they exclusively deal with borrowers who are either Traveloka customers, or those who are in need of mobile-phone credit. Although seemingly unrelated, these two borrower types ultimately boil down to Danamas' focus on non-cash products. Danamas acts as an intermediary between retail lenders and the borrowers. On the mobile-phone credit side, Danamas works closely with telecom vendors to attain credit in bulk. Funds to the telecom venders that are sourced from the lenders through Danamas will then be funneled to the borrowers, who own micro-businesses of selling mobile-phone credit. For Traveloka customers, Danamas is engaged in Traveloka Paylater, that allows borrowers greater ease in accessing trips and vouchers through the Traveloka app. In the case of fraud or defaulted loans, 70% of losses are covered by external insurance providers.

Aside from its unique borrowing market, it is also the first P2P Company that is both regulated and fully licensed by OJK. Since registration, Danamas has cumulatively disbursed almost IDR 624 billion in loans.

ESTABLISHED YEAR
2000

STAFF
> 50

DEFAULT RATE
0.00%

WEBSITE
www.danamas.co.id

INTEREST RATE RANGE
14.00% - 20.80%

LENDER'S MIN. INVESTMENT
IDR 500,000

REGULATORY STATUS
Registered & Licensed

BIGGEST INVESTORS
ITOCHU Corporation, Sinar Mas Multiartha

NO. OF LENDERS
>21,200

FUNDING SERIES
N/A

ACCESSIBILITY

GRADANA

"Gradana is pioneer of property fintech in the region. We revolutionize the way people buy, rent and invest in property. We provide scalable solution for mortgage down payment financing to address property backlog issues, rental bridging loan so lessee no longer needs to pay full annual rental in advance, and property-related invoice financing so business can manage cashflow better." – **William Susilo Yunior, Co-founder**

Company's Description

Recognized by Plug and Play in their showcase of "The Uncovered Innovation", Gradana is the pioneer of property-fintech in the region, creating an ecosystem where property developers, agents, landlords, users or borrowers and lenders get connected through innovative financing scheme. Their products touches on most housing aspects from mortgage down payment installments (GraDP), to rental loans (GraSewa), to fit-out or renovation, and to invoice financing (primarily for interior designers and architects) for property-related projects (GraKarya).

Unlike other typical P2P lending players, Gradana does not target the unbanked, but rather, brings a practical solution to the problem of unbearable housing down-payments within the bankable middle-class market segment. On the lender's end, Gradana relies equally on both retail lenders as well as institutional lenders, including banks and private funds. Grapoin, Gradana's online point system, is also in place to advance seamless interbank transfers as well as ease the reinvestment of earnings. Having partnered with numerous local property developers, they are also able to hold housing certificates, personal guarantees, or refund guarantees from developer partners, depending on the product, as their risk mitigation efforts in the case of a non-payment.

Gradana has vision to become online property fund in the region while developing financial securities affordable for retail investors. It is targeting to close its property funding batch this year with total combined value of over US$ 25 million.

ESTABLISHED YEAR
2017

STAFF (HQ)
12

DEFAULT RATE
0.00%

WEBSITE
www.gradana.co.id

INTEREST RATE RANGE
15.00% - 24.00%

LENDER'S MIN. INVESTMENT
IDR 200,000

REGULATORY STATUS
Registered

BIGGEST INVESTORS
William Susilo Yunior, Angela Oetama, Muljadi Tjandra

NO. OF LENDERS
> 500

FUNDING SERIES
Undisclosed

ACCESSIBILITY

INVESTREE

"Indonesia is a massive market yet provides only limited access to financing. Why not offer something different? Through Investree, Indonesia's leading marketplace lending, we are driving financial inclusion for SME through collaboration and digital-financial ecosystem." **– Adrian Gunadi, CEO and Co-founder**

Company's Description

Investree (PT Investree Radhika Jaya) identifies themselves as a marketplace-lending financial technology company in a diverse ecosystem with high amounts of SMEs yet low levels of bank penetration. Attempting to this, the company offers several different borrowing approaches. One of which is a product-driven approach, which ranges from invoice to buyer financing. Another is an ecosystem-based approach, with online seller to employee loan financing. Investree also now provides Sharia Financing to go the extra mile and cater to the large local Muslim market demand. Since their establishment, Investree has been building a strong digital financial ecosystem through its collaboration with other renown institutions such as Danamon, CIMB Niaga, Lazada, Tokopedia, Bukalapak, TCASH, DOKU, PEFINDO, and many more. As of Q3 2018, the company has funded up to 1,000 unique SMEs, and disbursed over IDR 1 trillion in loans. On the lenders side, Investree has, alongside a plethora of retail lenders, a strong institutional backing after having partnered with Bank Sumut, Amar Bank, and many other large financial players.

In mid-May 2018, Investree further diversified their lending portfolio. Having been chosen by the Ministry of Finance, Investree is now one of the official Distribution Partners to sell bonds into retail government bonds (Savings Bond Retail series SBR003 and also recently, reappointed to sell SBR004). To date, Investree has secured their status as the highest selling partner in non-bank category. Beyond having a strong local presence, Investree is also currently working on regional expansion. Since the start of 2018, it has been operating in Vietnam under the name of eLoan. Alongside this, they are also in the process of venturing into Thailand.

Business aside, Investree was involved in the Kapal Rumah Sakit Terapung (floating hospital-boat) Ksatria Airlangga outreach program, reaching remote areas such as Sapekan Island in East Java. Currently, Investree is working to aid the earthquake victims in Lombok.

ESTABLISHED YEAR
2015

STAFF
±90

DEFAULT RATE
0.0%

WEBSITE
www.investree.id

INTEREST RATE RANGE
Product-based*

LENDER'S MIN. INVESTMENT
IDR 1,000,000

REGULATORY STATUS
Registered

BIGGEST INVESTORS
SBI Holdings, Mandiri Capital Indonesia (MCI), Persada Capital, Endeavor Catalyst, 9F Fintech Holdings Group, Kejora Ventures

NO. OF LENDERS
>46,000

FUNDING SERIES
B

ACCESSIBILITY

Product-based:

Invoice Financing: 12% 20%
Merchant Cash Advance: 11.4% 26.8%
Online Seller Finance: 11.4% 26.8%
Employee loans: 11.4% 26.8%

KOINWORKS

"SME's account for 60% of Indonesia's GDP, but only 30% of them have access to financing from the banks. Our mission is to change that, by providing SME's better access to affordable financing and support the growth of the Indonesian economy." – **Benedicto Haryono, CEO and Co-founder**

Company's Description

KoinWorks' (PT Lunaria Annua Teknologi) name is an abbreviation of "Komunitas Investasi" or "Investment Community", which is also their inspiration in forming a community fueled by social productivity. In this, KoinWorks focuses on two specific sectors. The first, and the larger of the two, is that on SMEs – initially through e-commerce channels, but now to any company that generates data trails which they later utilize to underwrite loans. Earlier in their business, KoinWorks first partnered up with Lazada, and are now with a majority of the e-commerce unicorns. Through these partnerships, KoinWorks utilizes their platforms to further tap into and indirectly fund the second layer of SMEs. The second product is geared towards education, in which schools will receive financing that will translate into student loans. One distinctive factor with regards to KoinWorks is their balanced and tech-based on-boarding and risk assessment approach – it is one of the few players that has fully enacted e-KYC. Approaching Q3 2018, the company since inception has funded in approximately 1,500 – 2,000 unique borrowers, while disbursing IDR 50 – 60 billion loans per month.

Creatively thinking of ways to help those within the SME sphere, KoinWorks recently collaborated with Gadjian, a local payroll management platform, to create an employee loan feature. In this, companies whose employees are managed by Gadjian will be able to apply for short term loans through installment deductions from their salaries. Staying true to the meaning behind their name, KoinWorks often engage themselves in multiple social and education-related efforts. This is demonstrated by their initiative with Lazada in pushing women-led businesses on International Women's Day, and their project with English First ("EF") in promoting the importance of bilingual capabilities for professionals.

ESTABLISHED YEAR
2015

STAFF (HQ)
±50

DEFAULT RATE
0.13%

WEBSITE
www.koinworks.com

INTEREST RATE RANGE
09.00% - 20.00%

LENDER'S MIN. INVESTMENT
IDR 100,000

REGULATORY STATUS
Registered

BIGGEST INVESTORS
Mandiri Capital Investments

NO. OF LENDERS
65,000

FUNDING SERIES
A

ACCESSIBILITY

MEKAR

MEKAR

"Mekar is like a plumber, we connect pipelines from the inaccessible unbanked periphery of Indonesia into national and global capital markets" **– Thierry Sanders, CEO**

Company's Description

Mekar (PT Mekar Investama Sampoerna), which directly translates from Indonesian to "blossom" in English, stemmed from Putera Sampoerna's hopes for financial accessibility to be rooted in all of Indonesia with the help of technological developments. As such, Mekar targets unbanked micro-businesses and SMEs who would otherwise have sought the help of loan sharks or other forms of usurous loans. Of these borrowers, over 90% women-led businesses. Reason being that statistically, women are safer and have better repayment behavior than men – reflecting Mekar's strong sense of responsibility, security, and trust towards their lenders. One of Mekar's unique factors is their securitization and safe credit cooperatives, currently selling re-financed loans and assuring the lender 100% guarantee on principal that is backed by credit cooperative collateral and reserves and is backed by the Sampoerna Strategic Group. Currently, Mekar has already disbursed over IDR 100 billion in loans to 50,000 borrowers.

Keeping their focus on being green, social, and safe, Mekar is in the works of diversifying their profile in larger impact enterprises. Some of which include: businesses in health, education, clean energy, food/agri, recycling and financial inclusion. Additionally, Mekar's partners gear more towards non-bank financial institutions such as Koperasi Mitra Duafa ("Komida") that makes it possible for an investor in Jakarta or New York, to finance an unbanked business in the farthest islands of the Indonesian archipelago.

ESTABLISHED YEAR
2010

REGULATORY STATUS
Registered

STAFF
±50

BIGGEST INVESTORS
Sampoerna Family

DEFAULT RATE
0.3%

NO. OF LENDERS
1,600

WEBSITE
www.mekar.id

FUNDING SERIES
B

INTEREST RATE RANGE
07.20% - 12.50%

ACCESSIBILITY

LENDER'S MIN. INVESTMENT
IDR 1,000,000

MODALKU

"In Modalku, we believe that all creditworthy MSMEs should get the loan they deserve. It's up to all of us to help one another. Together, we can advance the Indonesian economy. **– Reynold Irsian Wijaya, CEO and Co-founder**

Company's Description

Modalku (PT Mitrausaha Indonesia Grup) is the only local P2P player that is not only registered in Indonesia, but is also licensed to operate internationally in Singapore and Malaysia. Locally, they are focused in Java, specifically Jakarta, Bandung, and Surabaya. Targeting SMEs as their borrowers, Modalku's focus for the near future is financial inclusion at scale, that is enabled by industry-leading AI technology and top talents. In addition, they also provide various cash flow solutions through Trade Financing products. The company puts a strong emphasis in technological development, having a strong mobile application with an auto-allocation dashboard that ensures a smoother transfer of funds, as well as an e-KYC process, and monetary disbursement within hours.

To date, Modalku has disbursed more than IDR 1.1 trillion in loans to local SMEs, of which 70% are lent from millennials. As such, Modalku has been chosen as one of the distribution partners for the government SBR004 Savings Bond Retail (SBR) government bond series, which has a side-mission in supporting national education. All funds received through the investment in SBR004 will be used by the government of Indonesia to further increase the local educational standards.

ESTABLISHED YEAR
2016

STAFF (HQ)
±120

DEFAULT RATE
0.5%

WEBSITE
www.modalku.co.id

INTEREST RATE RANGE
12.00% - 20.00%

LENDER'S MIN. INVESTMENT
IDR 100,000

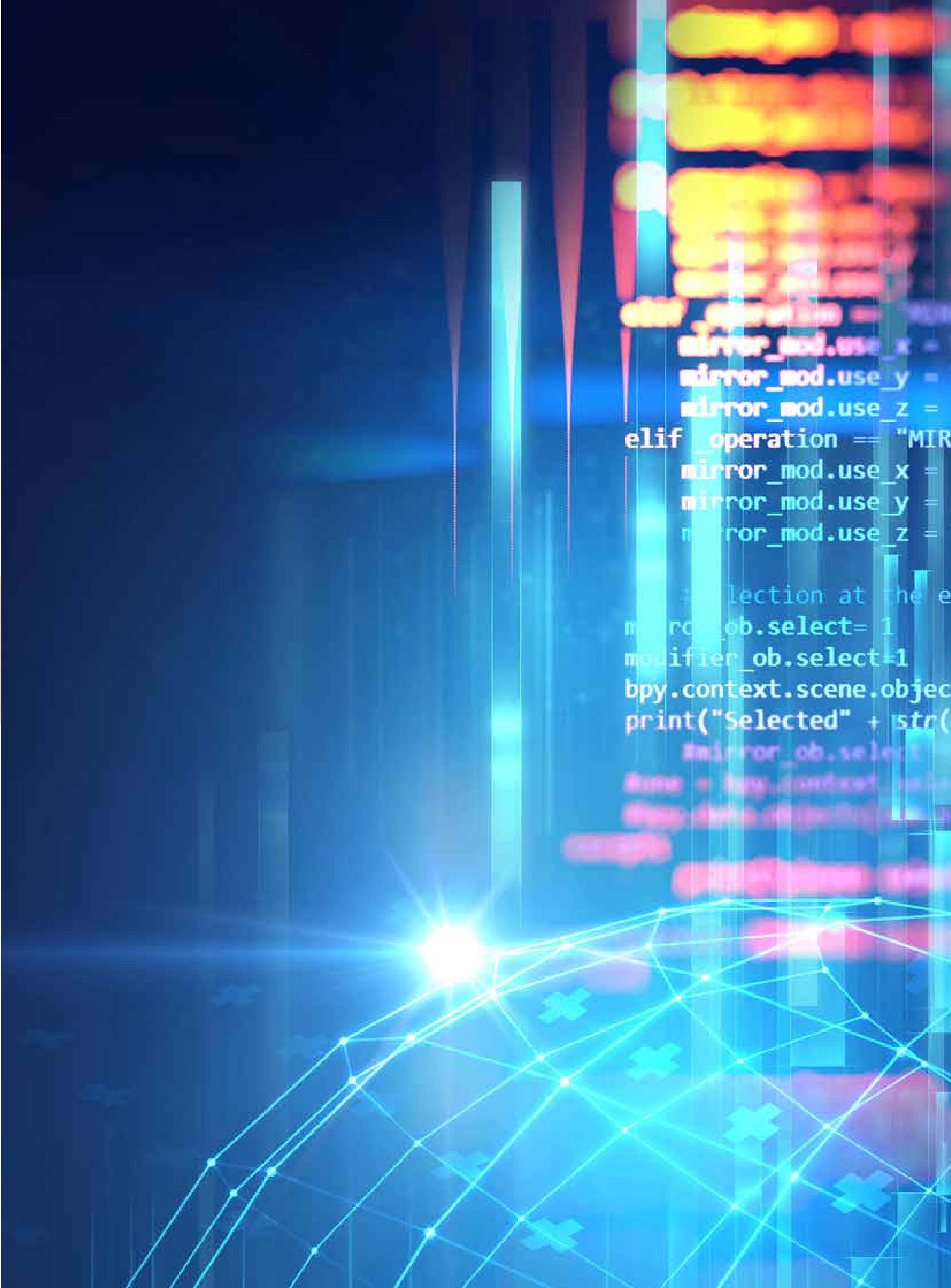
REGULATORY STATUS
Registered

BIGGEST INVESTORS
SoftBank Ventures Korea, Sequoia India, Alpha JWC Venture, LINE Ventures, Qualgro, Manuhasa Capital, Undisclosed

NO. OF LENDERS
> 75,000

FUNDING SERIES
B

ACCESSIBILITY


mirror_mod.use_y =
mirror_mod.use_z =
elif _operation == "MIR
mirror_mod.use_x =
mirror_mod.use_y =
ror_mod.use_z =
lection at the e
ob.select= 1
modifier_ob.select=1
bpy.context.scene.objec
print("Selected" + str(

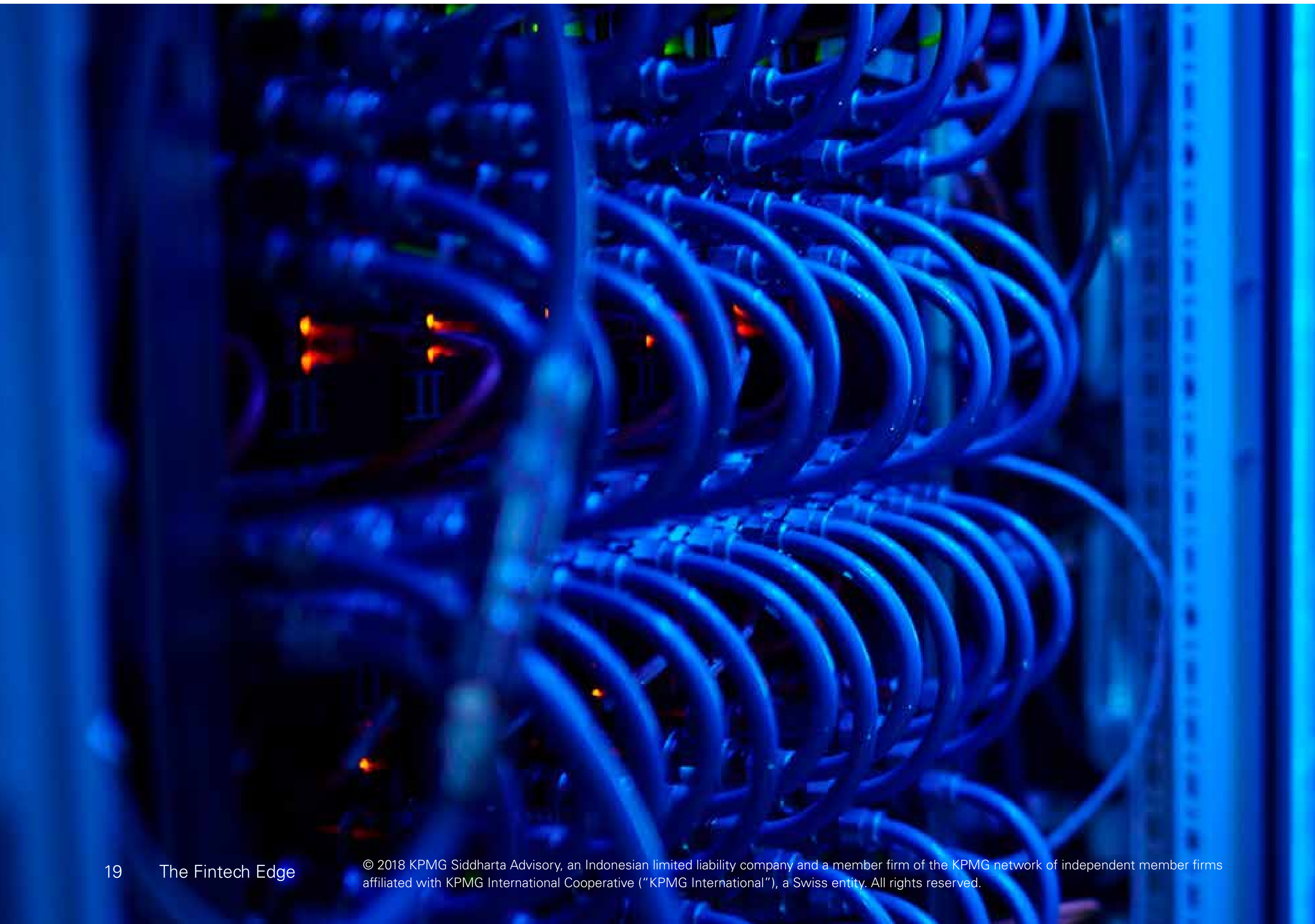
4. Know your regulators

The growth in Indonesia's fintech space has been remarkable. In the last two years the number of identified fintech companies operating in Indonesia have gone up from 50 to more than 150. Understandably, as with most emerging financial markets, new and constantly changing regulatory frameworks have remained a challenge for fintech players, including P2P lending platforms. With almost all the platforms we interviewed, understanding and correctly implementing regulations and policies are top of mind concerns. At the significant rate that fintech is developing in Indonesia, it is important to understand not only the regulations and overlaps between the two main regulatory bodies, but also the accompanied risks that follow. The two governing financial bodies in Indonesia which are: Bank Indonesia (BI) and Otoritas Jasa Keuangan (OJK).

Bank Indonesia – Regulation no. 19/12/PBI/2017

BI primarily focuses on the payment aspect of the players, for example when P2P players want to migrate towards having payment mechanisms, such as e-wallets or payment gateways on their platforms. BI regulation oversees the organization of financial technology that integrates technological developments with customer protection. As of December 30th, 2017, all fintech companies involved in payments systems are required to register their company with BI. However, those supervised by other authorities (e.g. OJK) and not involved in payments are exempt.

Once registered, BI will put the company in a regulatory sand box, a period over which BI will oversee the P2P lending platforms' fintech products before allowing them go to market. This usually lasts for a period of six months, which under BI's jurisdiction, could be extended to a maximum of another six months.



This testing period could result in:

1. The company passing the regulatory sand box stage. In this, the company is required to secure an official BI license, and their fintech products are then considered marketable and officially categorized as payment systems.
2. The company failing the Regulatory Sandbox stage, disallowing the company from going to market with the petitioned products.
3. The company is not classified as having payment systems, in which case, BI will forward the company's petition to the relevant sectors.

BI will continually monitor registered fintech companies, requiring these entities to regularly submit a checklist of information via BI's official website or email, or in person.

Bank Indonesia's Profile

Established on May 1999, Bank Indonesia is the Central Bank of the Republic of Indonesia, which oversees money management for the sole purpose of achieving currency stability. Moreover, BI has a special status of being both a public and a civil legal entity. Being a public legal entity calls for them to stipulate and implement banking regulations, while being a civil legal entity allows them to act on their on behalf both inside and outside the court.

@bank_indonesia Central Bank of Indonesia

Regulator's Point-of-View

Bank Indonesia acknowledges the rapid growth of fintech in Indonesia, however, highlights concerns surrounding risk awareness and mitigation from the innovator's standpoint. For this reason, they often encourage socialization events and create sessions with around numerous startup fintech companies every week. This enables fintech companies to discuss terms and clarify regulations directly with BI. Furthermore, BI believes that there is a country initiative for Indonesia to become a fintech hub in the near future, with hopes to develop a local innovation centre. Additionally, BI oftentimes harmonizes regulations with those of OJK concerning fund transfer issues, as well as collaborates with AFTECH for socialization, press, and publications.

Know your regulators

Otoritas Jasa Keuangan – Regulation no. 77/POJK.01/2016

This regulation relates to the roles and responsibilities of P2P lending platforms. At the time of registration and later at that of the licensing application under OJK, the platform has to have a paid-up capital of one billion Rupiah and two-and-a-half billion Rupiah, respectively. In order to be registered, OJK has prepared a set of five standards operating procedure (SOP) categories that has to be approved:

1. Institutional – How the company internally controls their activities
2. Business model and its risk management – how the company manages the borrowing ecosystem, collection and repayment, then reporting to OJK
3. Platform and its risk management – Ensuring the company has strong security over information of borrowers and lenders
4. Consumer protection – The extent to which the company monitors and reports on their consumers
5. National responsibility – The efforts taken by the company to ensure that their funds are not used for terrorism funding, money laundering, etc

If the platforms has documented those SOPs sufficiently in place, OJK can then approve their registration application and they will have up to one year to apply for a license. This pre-licensing phase only allows the company temporary power, in which OJK uses to assess the implementation of the SOPs that it has in place. Until they are fully licensed, the platforms are required to submit one report every three months with regards to their loan risk profiles, activities, and total number of borrowers and lenders.

Being a digital financial platform, P2P lending platforms need to have at least one talent with a background in IT, as well as a Director and Commissioner who has had at least one year's experience in the financial industry. Furthermore, platforms are only allowed to lend to Indonesians, but such restrictions does not exist for the lenders. All agreements between the platform and lender/ borrower/institution should be documented in the form of an electronic document in the case that it is ever need by OJK for review.

An interesting aspect to this regulation is that of financial literacy. It is required by OJK that these platforms provide external seminars and socializations to educate the market on the fintech sphere and specifically, how P2P lending works. The point of this is to further facilitate financial inclusion and bring market awareness.

Transparency is also a significant factor of this regulation, ensuring with full clarity that all information regarding the loan (e.g. borrower profile, loan tenor) has to be readily available for the lender. During transactions, P2P lending platforms are not to store or retain money independently from banks, as the regulation requires all cash flow to go through an escrow account. This allows for the transactions to be transparent and regulated. Lenders and borrowers will then have virtual accounts within these platforms. The exception to this is if the P2P lending platform caters to unbanked borrowers in remote areas. In this case, the money will be disbursed to them through agents in the form of group lending.

There also comes many limitations to the role of the P2P lending platforms, disallowing them to:

1. Pursue other businesses as the same entity other than what is stated in this regulation
2. Act as its own borrower or lender
3. Provide financial guarantees in any form (with the exception of having partnered with an external institution for guarantees e.g. an insurance company)
4. Issue loans/debts
5. Deliver loan recommendations to lenders
6. Publicize fictive information
7. Personally offer services through forms of communication outside of the extent of the platform
8. Charge fees for filing a complaint

Upon licensing, OJK will monitor the P2P platforms through yearly reports and audit trails in the form of electronic documents.

Otoritas Jasa Keuangan's Profile

OJK has become the financial pillar of Indonesia's economy through regulating and organizing the Capital Market sector, specifically that of national monetary services since 2011.

Aside from creating a securely integrated financial system, OJK's priority also lies in the interests of consumers and the national community as a whole.

@ojkindonesia Otoritas Jasa Keuangan

Regulator's Point-of-View

Everyone has a part to play in encouraging healthy financial inclusion – and that is very much exemplified in the current P2P regulation. I came from a background where, in my village, if my mother wanted to build a house, my neighbors would come one by one to support us. Some would bring bricks, cement, food, water. You see, Indonesia is a country embodied with a strong 'help-your-neighbor' culture, which shows that P2P lending is not a new invention.

Henceforth, it is safe to say that the P2P lending sphere here in Indonesia will 100% be different from that of China. From the regulatory perspective alone, even POJK 77/POJK.01/2016 was not just created by OJK.

It was written bottom-up alongside the collaborative efforts of both the Indonesian Fintech Association and the existing P2P lending platforms. Thus far, our rapport has seen heartening results. In our spirit of fostering growth, we have created 215,433 new jobs for those who were previously unemployed, which resulted in salaries amounting to a total of IDR 4.56 trillion.

Beyond having the regulation in place, we have asked all registered platforms – both as a group and individually per platform – to provide their dedication to the development of the P2P lending sphere in Indonesia by personally signing commitment letters. On our end, we are devoted to educate the public by fully funding and facilitating nationwide socialization events alongside the P2P platforms. The growth of P2P lending has been over 800% since the regulation was first written up in 2016, and we are expecting there to be approximately IDR 25 trillion of loans disbursed by the end of 2018. With such growth, we are also strongly advancing the digitization of the platforms. The goal is for every platform to have a digital IDs and signatures. This will be our pilot project and will be enacted first and foremost to P2P platforms.

- Hendrikus Passagi (Fintech Director of Regulations, Licensing, and Supervision)

5. Focus areas for improvement

We also identified several aspects that require focus before P2P platforms can truly flourish in the Indonesian market.

Digitization - Most local platforms are not yet fully digitized, which is a deterrent for lenders who are looking for a seamless investment experience.

Risk Management - P2P platforms need to further strengthen their risk management over credit assessment, compliance, and operational procedures.

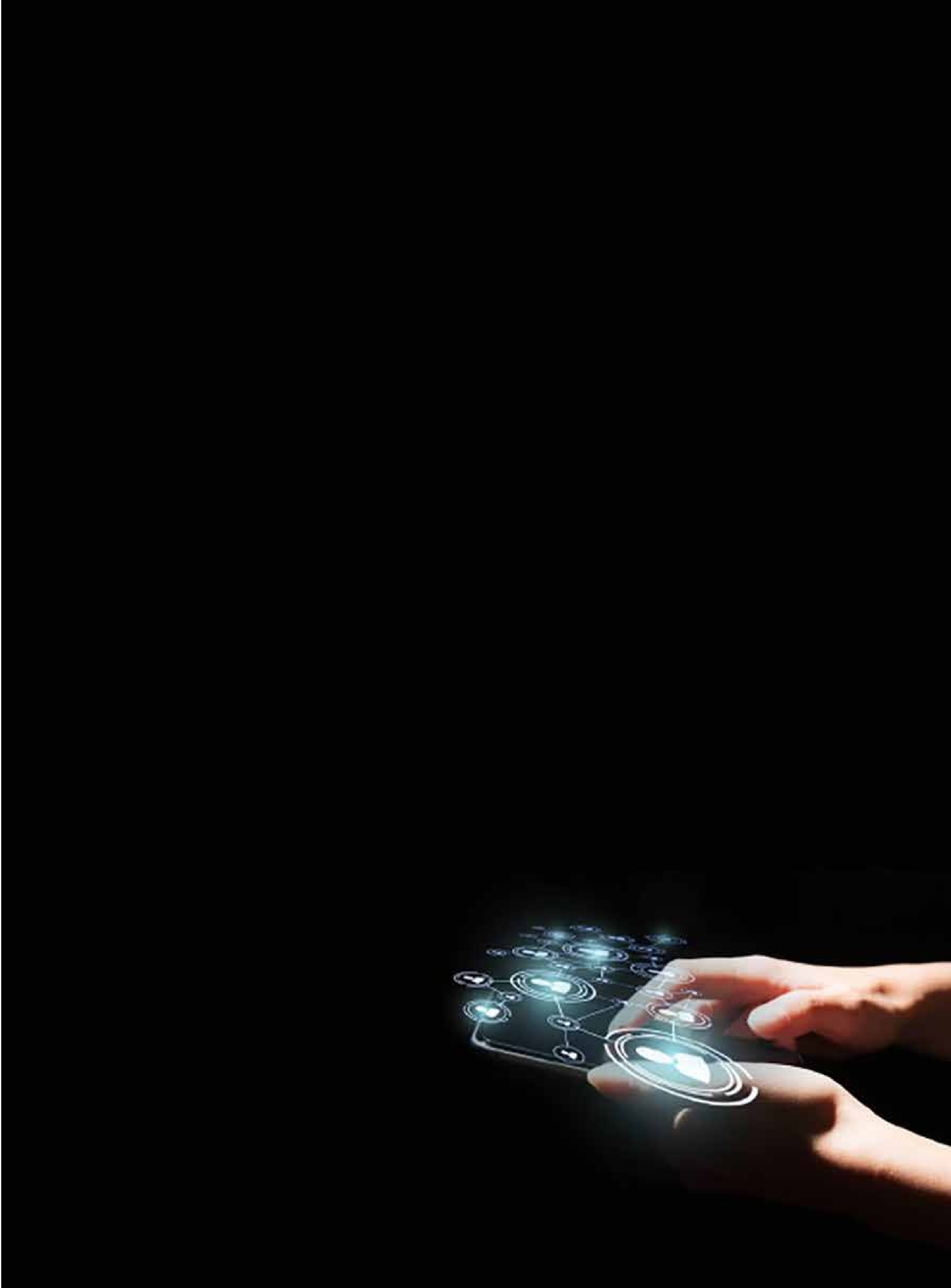
Technology - Improve targeting and conversion rates using leading edge technology, such as Artificial Intelligence (AI) and digitization of processes.

AI to develop e-KYC processes - By entering the necessary policies and having it recognize the platform's borrower assessment patterns, machine learning can transform and refine the entire credit approval process.

Human analytics - to find patterns in previous non-performing loans and default rates to identify possible future issues and fraudulent transactions with increased accuracy.

AI to use predictive analytics - on the lending patterns of lenders, allowing possible loan proposals based on lenders' risk appetites.

Chat bots - to improve overall customer experience and platform loyalty by taking in the questions and feedback from customers and generate appropriate answers / best practices.



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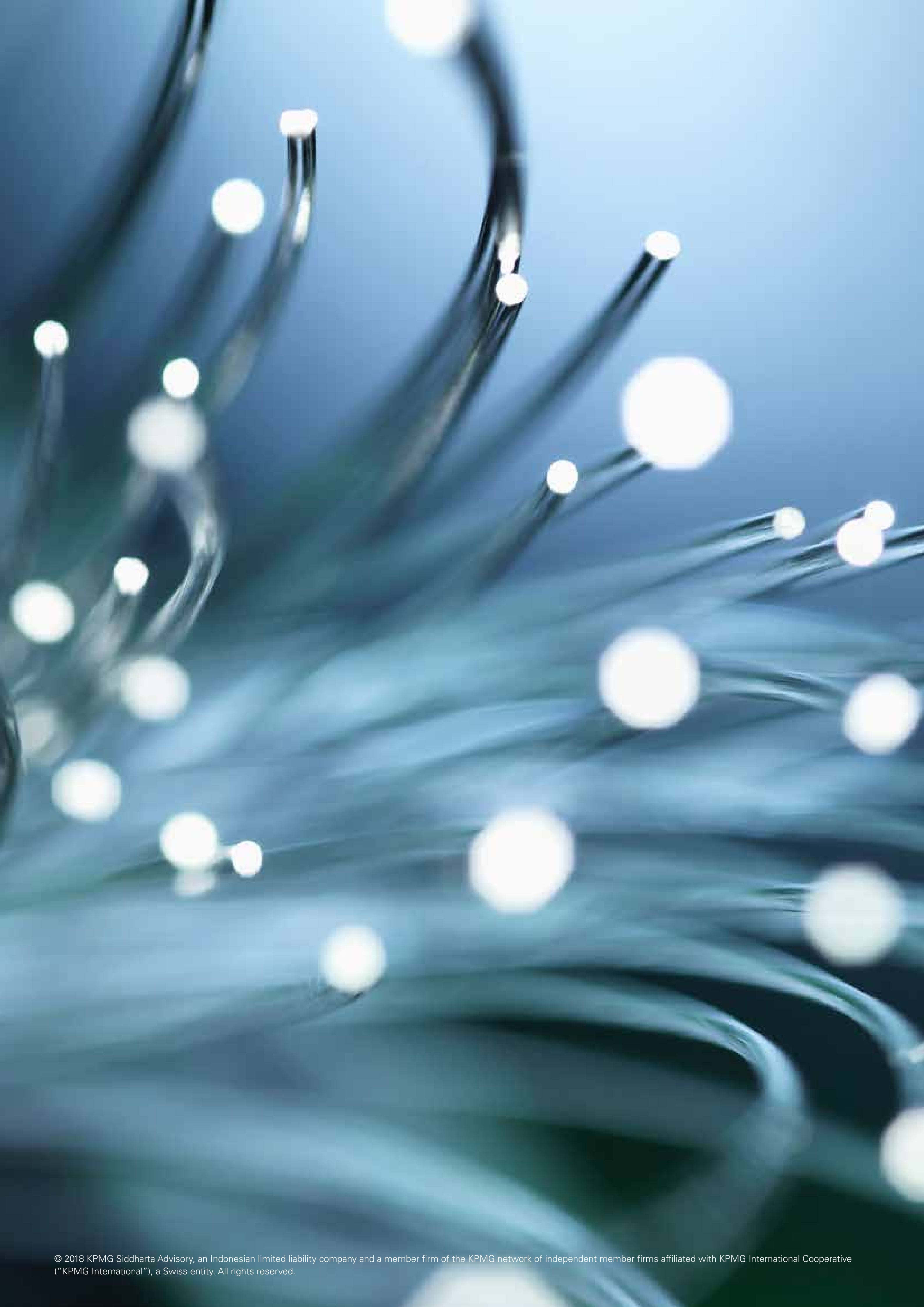
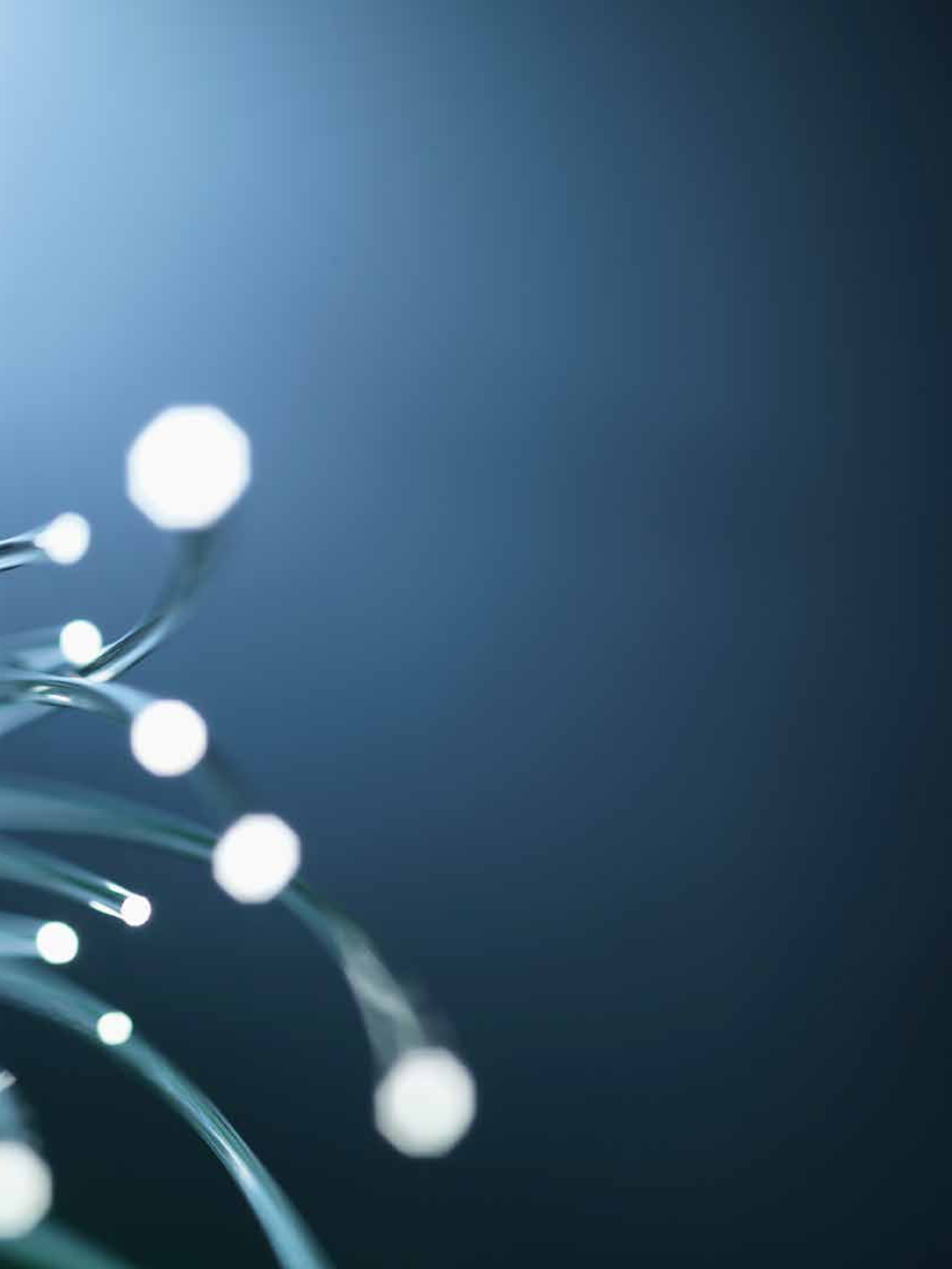
Glossary

AFTECH	Asosiasi FinTech Indonesia (Indonesia FinTech Association)
AI	Artificial Inteligence
BI	Bank Indonesia
Borrower	A party (e.g. individual, microbusiness, or SMEs) that seek for loan of fund
Debt Financing	The act of borrowing money while not giving up ownership over the entity
Digitization	Information conversion into digital format
e-commerce	Electronic commerce buying or selling of products through internet
e-KYC	Electronic Know-Your-Customer – identity verification
Financial Inclusion	Individuals and organizations that have successfully delivered financial products and services in a responsible and sustainable approach.
FinTech	Financial Technology
GDP	Gross Domestic Products
Inventory Financing	A form of asset-based lending that allows businesses to use inventory as collateral to obtain a revolving line of credit
Invoice Financing	A form of asset-based lending product allowing companies to finance slow-paying accounts receivable
KPMG	PT KPMG Siddharta Advisory, an Indonesian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity
Lender	A party (e.g. individual, a financial institution) that enables to provide funds to be available
OJK	Indonesia Financial Services Authority
PBI	BI regulation
Platform	A website media delivery
POJK	OJK regulation
P2P	Peer-to-peer
Q1	First quarter of the fiscal year
Q2	Second quarter of the fiscal year
Q3	Third quarter of the fiscal year
Q4	Fourth quarter of fiscal year
SMEs	Small-Medium Enterprises
Un-banked	An individual or organization that is not served by the banks or similar financial institution
Under-banked	An individual or organization that has no sufficient access to significant financial services





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