

Study of Money Laundering and Terrorist Financing Vulnerabilities of Indonesian **Peer to Peer Lending** Industry



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**Study of Money Laundering and Terrorist Financing
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CHAPTER I INTRODUCTION

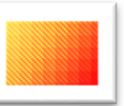
1.1. Background

The Financial Services Sector (FSS) has an important role in improving a country's finances. Along with the development of technology, the FSS also developed. The FSS with technological developments is Financial Technology (FinTech) which is a business model that combines financial services with technology services. In many countries, FinTech is becoming a new trend and has been developing rapidly for the recent years. FinTech is currently a financial service that uses technology so that it can make processes more efficient for the company or its users.

Technological developments also make FinTech companies rapidly develop so that the types of financial services that can be provided very diverse, including FinTech types of peer to peer lending, crowdfunding, market aggregators, risk management and investment, payment, settlement, clearing, and many more. However, the first developed type of FinTech in Indonesia is peer to peer that facilitates direct borrowing and borrowing based on written and unwritten agreements which is a practice that has taken place in the middle of society.

Direct lending and providing loans have been in great demand by those who need fast funds or those who for some reason cannot be given funding by conventional financial service industries such as banking, capital markets, or financing companies. All economic benefits, losses incurred, and the legal impact of the activities of lending and borrowing carried out directly are fully the responsibility of the parties under the agreement that has been agreed upon. This practice is still considered because it still has many weaknesses, such as the implementation of lending and borrowing activities carried out by parties who already know each other and must meet face to face, subjectivity to the assessment of default risk, difficulties in collecting payments, or the absence of a system for recording the repayment of loans that have been made.

In the era of digital economy, the society continues to develop innovative service in lending and borrowing activities, one of them shown by the regulation of Information Technology Lending and Borrowing Services (FinTech Peer to Peer Lending), in the next section, it will be mentioned as "P2PL", which is considered to contribute towards development and the national economy. P2PL is very helpful in increasing public access to financial services products online in many parties without need to know each other. The main advantages of P2PL include the availability of agreement documents in electronic form online for the needs of the parties, the availability of legal counsel to facilitate online transactions, risk assessment of the parties online, sending billing information (collection) online, providing loan status information to the parties online, and provisioning of escrow accounts and virtual accounts in the banking system to the parties, so that the entire payment of funds takes place in the banking system. On this matter, P2PL is expected to be able to meet cash needs quickly, easily, and efficiently, and increase competitiveness. In addition, P2PL is



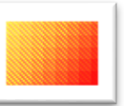
expected to be one of the solutions to help micro, small, and medium-scale businesses (MSMEs) for getting access to funding.

P2PL is often become a solution for the society, especially small communities and MSMEs who often find it difficult to get loans from banks or other conventional financial service providers (FSP) due to their inability to meet the risk assessment and business feasibility criteria such as capability, capital collateral, and condition of economy, or this is known as 5C which is the main consideration of FSP in providing loans. MSMEs are generally informal (a form of individual business or business entity that is not a legal entity), and does not have sufficient collateral. In fact, according to data from the Ministry of Cooperatives and MSMEs in 2013, MSMEs became a very crucial part of Indonesia's economic growth because the number of MSMEs is reached 98.8% of all business units in Indonesia, and contributed around 60.34% to the Gross Domestic Product (GDP) with employment up to 96.99%. Therefore, the presence of P2PL can be an alternative source of funds that offers easy and fast loans for small communities and MSMEs to solve these constraints of getting access to funding without the need for collateral.

By considering the existing problems in Indonesia and the potential benefits obtained by P2PL in solving these problems, the development of P2PL in Indonesia continues to receive support to develop to encourage the growth of new financing alternatives for the business world as well as alternative investment media for the society. P2PL has become one of the means for mobilizing fund channeling and providing funds for parties based on information technology, through various financial instruments, amid limited funding from the government/country and the banking sector. The existence of P2PL makes financial transactions faster and more practical, including financial transactions intended for payment, borrowing, and lending money, or building a business activity through a mechanism of collecting funds from the public by compensating for equity participation.

On the other hand, the growth and development of P2PL not only opens up opportunities for the wider community, but also can open a gap for perpetrators of crimes who want to use P2PL as a media for Money Laundering (ML) and Criminal Funding for Terrorism (TF). Along with the potential ML and TF, ideally there is a comprehensive ML and TF risk assessment on P2PL as an adequate risk mitigation. However, because P2PL is a relatively new industry in Indonesia and also the implementation of AML and CFT programs for them is only required in 2021, which causes data and information forming comprehensive ML and TF risk assessments not be able to be fulfilled, one of the things that can be done is to analyze and assess the vulnerability of P2PL itself to the risk of ML and TF.

Based on the background, the Financial Services Authority (OJK) through the AML and CFT Group seeks to compile a ML and TF risk assessment study related to P2PL which focuses on the aspects of P2PL vulnerability that can be used as a means for ML and TF.



1.2. Problem Identification

Based on the background outlined above, the current problem is how to place ML and TF risks associated with FinTech P2PL executant in Indonesia, especially those focused on aspects of P2PL vulnerability to ML and TF risks.

1.3. Purpose

The study aims to make a map for ML and TF risks for FinTech P2PL provider in Indonesia, specifically P2PL vulnerability to money laundering and terrorism funding.

1.4. Systematic

The descriptions in this study are grouped into the following sections:

a. CHAPTER I INTRODUCTION

This chapter contains a background description that underlies the importance of the study, identification of problems, the purpose of the study, and systematical study of this study.

b. CHAPTER II METHODOLOGY

This chapter contains a description of the limitations and framework for the study and the database used in this study.

c. CHAPTER III GENERAL DESCRIPTION AND LITERATURE STUDY

This chapter contains a description of the regulation and understanding of P2PL in Indonesia, the development of the P2PL industry in Indonesia, an understanding of vulnerability, threats and consequences, as well as international principles relating to P2PL.

d. CHAPTER IV IDENTIFICATION, ANALYSIS, AND DISCUSSION

This chapter contains a description of the identification, analysis, and discussion of aspects of threats, vulnerabilities, and consequences of ML and TF related to P2PL in Indonesia.

e. CHAPTER V CONCLUSIONS AND RECOMMENDATIONS

This chapter contains a description of the main points of conclusions and recommendations as a follow up on the results of the assessment of the aspects of threats, vulnerabilities, and consequences of ML and TF related to P2PL in Indonesia



CHAPTER 2 METHODOLOGY

2.1. Limitation of Study

Based on the background described above, there is currently no ML and TF risk assessment in the FinTech P2PL sector in Indonesia. Therefore, the ML and TF risk assessment needs to be prepared by identifying, assessing, and analyzing the factors of threats, vulnerabilities, and consequences that exist in the FinTech P2PL sector in Indonesia.

However, P2PL is a relatively new industry in Indonesia and also the implementation of the AML and CFT programs for them is only required in 2021, so the data forming the aspects of threats and consequences are still not comprehensive. Therefore, this study will focus on an assessment of the vulnerability of P2PL in Indonesia toward the risks of ML and TF.

2.2. Frameworks

In the context of preventing and eradicating ML and TF, understanding ML and TF risk is one of the main things in order to prevent and eradicate effectively. One way to deal with ML and TF risks is to conduct ML and TF risk assessments, which based on the National FATF Money Laundering Guidelines and Terrorist Funding Risk Assessment, the risk process can be divided to be seen as follows:

1. Identification

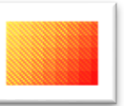
The identification process is conducted to identify the risks to be analyzed which are based on 3 (three) risk-forming variables, those are threats, vulnerabilities, and consequences by taking the first step, which is to collect data by data types and information that included in category of threats, vulnerabilities, and consequences.

2. Analysis

Analysis is a continuation of the stages of risk identification using the threat, vulnerability and consequences variables. The purpose of the analysis is to analyze the risks identified to understand the characteristics, source, probabilities, and consequences in order to establish the relative value for each risk. The analysis stage contains the process of weighting each risk that has been identified in the previous identification stage.

3. Evaluation

Evaluation is a decision-making process on the results which found during the analysis process to determine priorities in overcoming risks and taking into account the objectives of risk assessment at the beginning of the assessment process. This stage also contributes to the development of strategies for risk mitigation. Evaluation consists of an assessment process for each weight that is produced which is intended to determine the level of risk (high, medium/intermediate, or low) and determine the further stage for each level of risk.



However, by looking at the restriction of the study as described in item 2.1 above, then the identification, analysis, and evaluation stages, all of which will be emphasized more on the aspect of the vulnerability of FinTech P2PL provider in Indonesia against the risks of ML and TF.

Furthermore, this study was prepared using descriptive analysis methodology, which is a method that functions to assess a condition by providing a description of the object under study through quantitative and qualitative processing of data / information that has been collected previously.

2.3. Data

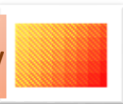
The data used in this study are qualitative and quantitative data. The data period used in this study is data in 2019.

Determination of the period is intended that this study is based on actual and current data and considers that the data and information that form the basis of this study are sourced from the literature review of OJK regulations relating to the implementation of the AML and CFT programs and the P2PL industry, and especially the literature international principles.

In addition, in-depth interview is also conducted with team consisting of OJK's internal elements, such as the GPUT, the Directorate of Regulation, Licensing, and Supervision of Financial Technology, and the Digital Financial Innovation Group, as well as, the OJK's external elements, those are the association's association representatives. Fintech Indonesia and the Indonesian Joint Funding Fintech Association, to obtain information and data related to P2PL business practices in Indonesia.

Furthermore, questionnaires were distributed to 25 (twenty-five) companies operating FinTech P2PL as respondents. However, of the 25 (twenty-five) FinTech P2PL providers listed, only 20 (twenty) FinTech P2PL operating companies responded to the request for filling the questionnaire.

The study was also complemented and enriched with Forum Group Discussion (FGD) which presents resource persons who have competence in their fields, such as representatives of FinTech P2PL provider OJK internal work units that regulate and oversee P2PL implementation activities, authorities in the field of prevention and eradication of ML and TF in Indonesia, as well as, experts/academics.



CHAPTER III OVERVIEW AND LITERATURE STUDY

3.1. Regulation and Definition of Information Technology Based Lending and Borrowing Services

On December 28, 2016 OJK has issued a regulatory framework for P2PL activities through OJK Regulation Number 77/POJK.01/2016 concerning Information Technology-Based Money Lending and Borrowing Services (P2PL POJK). The issuance of the P2PL POJK is intended to provide a legal framework for the activities of lending and borrowing money directly based on written and unwritten agreements, which are practices that have taken place in society. P2PL POJK aims to support the P2PL industry, so that it can further contribute to the national economy.

According to the P2PL POJK, Information Technology-Based Lending and Borrowing Services is defined as the provision of financial services to bring together lenders and borrower in the context of entering into loan agreements to borrow in rupiah directly through an electronic system using the internet network (Article 1 number 3 P2PL POJK).

In P2PL activities there are parties involved, including:

- 1. Information Technology Based Money Lending and Borrowing Service Provider** (In the next section, it referred to as P2PL provider, which in P2PL POJK is defined as an Indonesian legal entity that provides, manages, and operates Information Technology Based Money Lending and Borrowing Services (Article 1 number 6 P2PL POJK); and
- 2. Information Technology Based Money Lending and Borrowing Service Provider User** (In the next section, it referred to as P2PL User), in P2PL POJK divided into 2 (two) parties:
 - a. Borrower**, which in the P2PL POJK are defined as persons and/or legal entities that have debts due to Information Technology Based Lending and Borrowing Services agreements (Article 1 point 7 P2PL POJK); and
 - b. Lenders**, which in the P2PL POJK are defined as persons, legal entities, and/or business entities that have receivables due to Information Technology Based Lending and Borrowing Services agreements (Article 1 point 7 P2PL POJK).

In its business process, P2PL provider is the owner of the platform that connects the two P2PL users, those are the lender and borrower. The P2PL scheme based on these definitions can be illustrated as shown below:



PEER-TO-PEER LENDING

Lending-borrowing services directly between lender and borrower based on technology information.

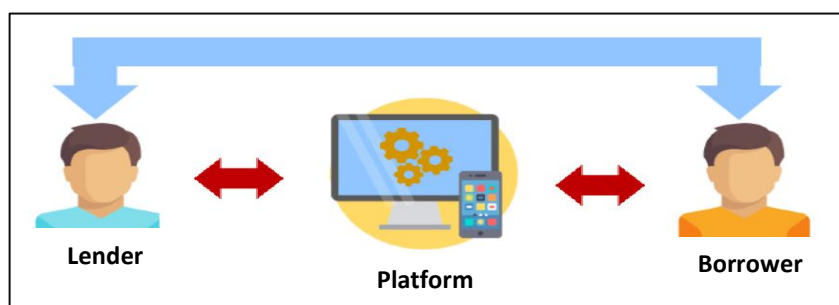
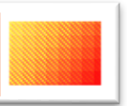


FIGURE 1:
FinTech Peer to Peer Lending Scheme

Furthermore, P2PL POJK regulates the following matters:

1. P2PL provider, which consists for the following:
 - a. Form of Legal Entity, Ownership, and Capital;
 - b. Business activities;
 - c. Limitation of Fund Lending;
 - d. Registration and Licensing;
 - e. Change of Ownership;
 - f. Revocation of Permit for Own Application;
 - g. Qualification of Human Resources.
2. P2PL service users, which includes regulation of the following matters:
 - a. Borrower;
 - b. Lender.
3. P2PL Agreement, which includes:
 - a. P2PL provider agreement with the lender;
 - b. Lender agreement with Borrower.
4. Risk Mitigation that must be carried out by both FinTech P2PL provider, as well as, the lender and borrower.
5. Information technology system governance related to FinTech P2PL provider, which includes regulation of the following:
 - a. Data Center and Disaster Recovery Center;
 - b. Data Confidentiality;
 - c. Audit Track Record; and
 - d. Security System.



6. Education and protection for P2PL users.

In protecting P2PL Users, FinTech P2PL providers are required to apply the following basic principles:

- a. transparency;
- b. fair treatment;
- c. reliability;
- d. confidentiality and data security; and
- e. simple, fast, and affordable user dispute resolution.

7. Use of electronic signatures in the P2PL Agreement

8. FinTech P2PL provider obligation in implementing AML and CFT programs

9. Prohibition of FinTech P2PL providers in carrying out their business activities, including:

- a. conduct business activities other than business activities regulated in P2PL POJK;
- b. acting as a lender or borrower.
- c. provide guarantees in all its forms for the fulfilment of the obligations of other parties;
- d. issue debt securities;
- e. provide recommendations to users;
- f. publish information that is fictitious and/or misleading;
- g. make service offerings to users and/or the public through personal communication facilities without the User's consent; and
- h. imposes any fees on users for filing complaints.

10. Periodic reports that must be submitted electronically by FinTech P2PL to OJK, namely:

- a. monthly report, which at least contains:
 - 1) FinTech P2PL provider's financial performance report submitted in the form of physical and electronic documents;
 - 2) performance reports on the implementation of P2PL in the form of physical documents and electronic documents;
 - 3) Electronic documents in database format with P2PL database element structure; and
 - 4) User complaints are accompanied by follow-up to settlement of complaints.
- b. annual report, consisting of:
 - 1) financial statements; and
 - 2) P2PL implementation activity report



All arrangements regarding P2PL through P2PL POJK, as mentioned above, it aims to actualize some of principles for conducting P2PL activities in Indonesia, including:

1. The Principle of Expediency

All P2PL implementation activities are expected to provide maximum benefits for the people of Indonesia, especially those who were previously unreachable by conventional PJK, so as to improve society welfare and human dignity and increase economic growth in Indonesia. The P2PL POJK that has been issued is expected to provide benefits for the interests of consumers and business actors as a whole.

2. The Principle of Justice

All P2PL implementation activities are expected to provide justice proportionally for every Indonesian citizen to improve his standard of living. P2PL POJK that has been issued is expected to ensure maximum participation of all Indonesian citizens and provide opportunities for consumers and business actors to obtain rights and carry out their obligations fairly.

3. The Principle of Legal Certainty

The P2PL POJK that has been issued is expected to provide a clarity, decisiveness, and not lead to various interpretations so as to be able to provide certainty for business actors and the public to provide clarity about what may and not be carried out in the P2PL implementation activities. In addition, legal certainty certainly provides protection for parties involved in P2PL activities.

4. The Principle of the Public Interest

This principle puts public welfare first in an aspirational, accommodative and selective way. As stated earlier, P2PL can be an alternative source of financing that is needed by the society, especially small communities and MSMEs who have difficulty obtaining funding from conventional PJK. This principle requires that the regulation regarding P2PL can provide welfare to the wider community.

3.2. The Development of Information Technology Based Borrowing and Lending Services Industry

Based on FinTech Lending Statistics data as of 27 November 2019, it was recorded that there were 13 licensed FinTech P2PL providers and 131 registered FinTech P2PL providers, with 132 conventional providers and 12 providers, bringing the total number of FinTech P2PL providers registered and licensed. Therefore, the total of FinTech P2PL is 144 providers. Of the total number of FinTech P2PL providers, 100 of them are local and 44 others are foreign investments.



FIGURE 2:
Data of Number of P2PL FinTech Companies Registered / Licensed

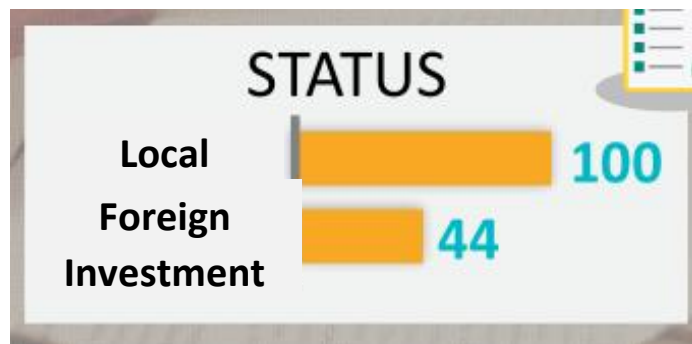


FIGURE 3:
Data on FinTech P2PL Provider Status

Based on the domicile of FinTech P2PL providers, it can be seen that the majority of FinTech P2PL providers are domiciled in the Greater Jakarta area, with a total of 135 FinTech P2PL providers. While a small proportion of FinTech P2PL provider in the Surabaya region with a total of 4 FinTech P2PL provider, in Bandung there are 2 FinTech P2PL provider, and in Lampung, Makassar and Badung (Bali), each of which has 1 FinTech P2PL provider.



Figure 4:
Data on Domicile of FinTech P2PL Providers



In terms of the development of Fintech Loans, based on the same year-to-date data, it is known that on November 27, 2019 the number of lenders' accounts increased by 178.62%, to 578,158 entities, with details of the number of lending entities in Java increasing by 207,77% to 477,742 entities, while in regions outside Java the percentage increase was only 92.48% with 96,779 entities. An increase in lender accounts also occurred overseas with a percentage of 82.21%, so there have been 3,637 entities.

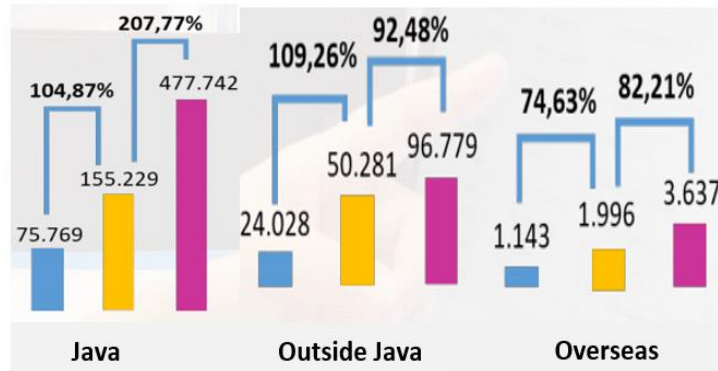


Figure 5:
Data on Increased Lender Accounts

Referring to the number of borrower account entities in year to date, the accumulated increase in the number of borrower accounts per November 27, 2019 in Java and outside Java, is 266.71% so that there are 15,986,723 entities, with details in the Java region of borrower account entities increasing by 263,65% with a total of 13,326,505 entities, while in regions outside Java, the percentage increase in borrower account entities was 282.87% to 2,660,218 entities.

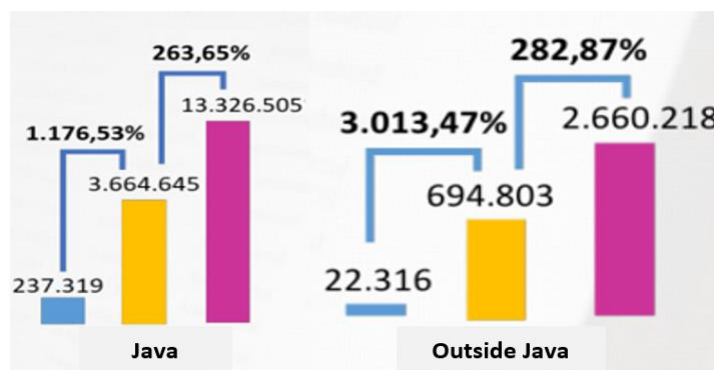
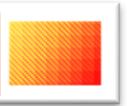


Figure 6:
Data on Increasing Borrower Account

An increase also occurred in the number of loan disbursements and outstanding loans. In terms of lending, in Java during 2017 the loans distributed were 2,185.63 billion, in 2018 was 19,617.46 billion, and October 2019 was 58,299.15 billion. While for regions outside Java, the amount of lending in 2017 was 378.32 billion, in 2018 a total of 3,048.61 billion, and October 2019 it reached 9,700.73 billion. Therefore, the total accumulated amount of loan disbursement from 2017 to October 2019 is valued at Rp 68.00 Trillion. As for the nominal amount of



outstanding loans, from 2017 to October 2019 amounting to Rp 11.19 trillion with a percentage of 121.76%.

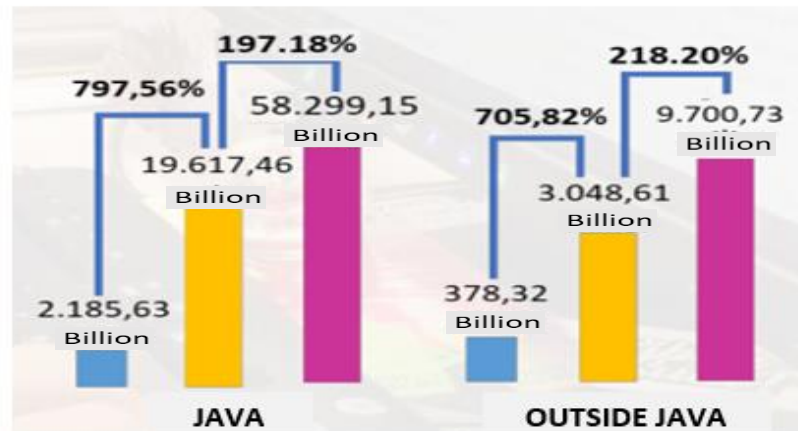


Figure 7:
Data on Increasing Loan Amount

In relation to the characteristics of loans based on the same data, it shows that the lowest loan value is Rp 1,137 billion with an average of Rp 23,243,193 billion. While the average value of loans extended was IDR 75,534,021 billion. In terms of 90-day success rate (TKB90), the percentage of TKB90 in December 2018 was 98.55%, while in October 2019 it decreased slightly to 97.16%.

Furthermore, referring to the FinTech Lending statistical data as of October 31, 2019, when reviewed by province or region in Indonesia, DKI Jakarta is the province or region that has the highest accumulation of lender account entities in Indonesia, with 264,811 entities or 423.49% of the overall total is 578,158 entities. While the province or region in Indonesia which has the largest accumulated amount of loan distribution is 43.370.04 billion in Central Java or 278.64% of the total Rp 60,407.31 billion.

While the province or region which has the highest accumulation of borrower accounts and borrower transactions in Indonesia is West Java, which can be described as follows:

1. Total accumulated borrower accounts: 4,731,707 entities or 274.33% of the total 15,986,723 entities; and
2. Total accumulated borrower transactions: 17,161,862 accounts or 329.18% of the total 62,171,978 accounts.

In detail, a general description of the accumulated number of lender account entities, borrower account entities, loan disbursement, and borrower transaction accounts in all regions of Indonesia is as shown below:

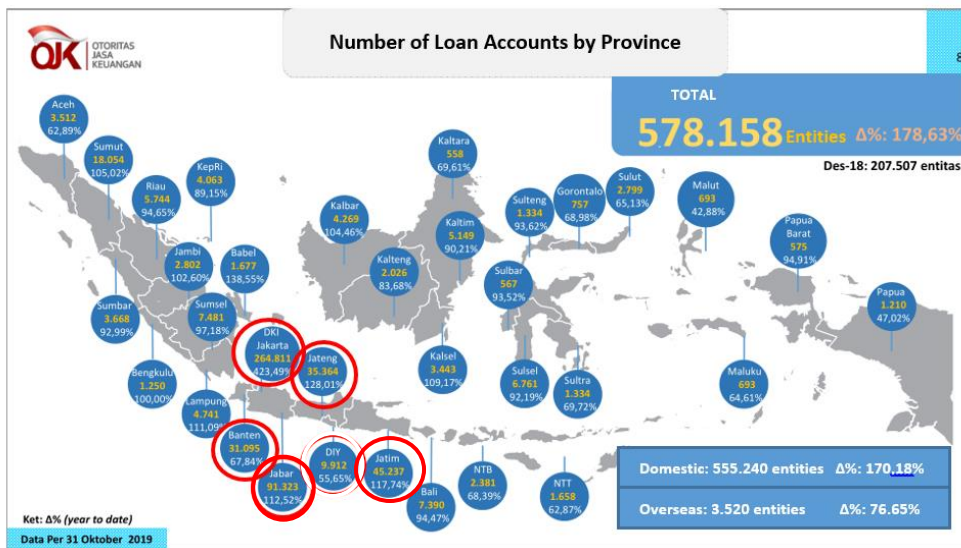
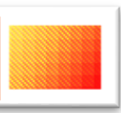


FIGURE 8:
Number of Loan Accounts by Province

Based on these data, the 5 provinces or regions that have the largest accumulation of lender accounts are DKI Jakarta at 264,811, West Java at 91,323 entities, East Java at 45,237 entities, Central Java at 35,364 entities, and Banten at 31,095 entities.



Figure 9:
Total Accumulated Loan Distribution by Province

Meanwhile, bases on total accumulated load distribution, Central Java with a total of 43,370 billion, DKI Jakarta 21,060, 42 billion, West Java 18,364.10 billion, East Java 7,468.56 billion, and Banten 6,268.47 billion.



FIGURE 10:
Number of Borrower Accounts by Province

Furthermore, in terms of the largest number of borrower accounts in Indonesia owned by West Java 4,731,707 entities, DKI Jakarta 3,839,061 entities, East Java 1,879,402 entities, Banten 1,455,056 entities, and Central Java 1,225,530 entities.

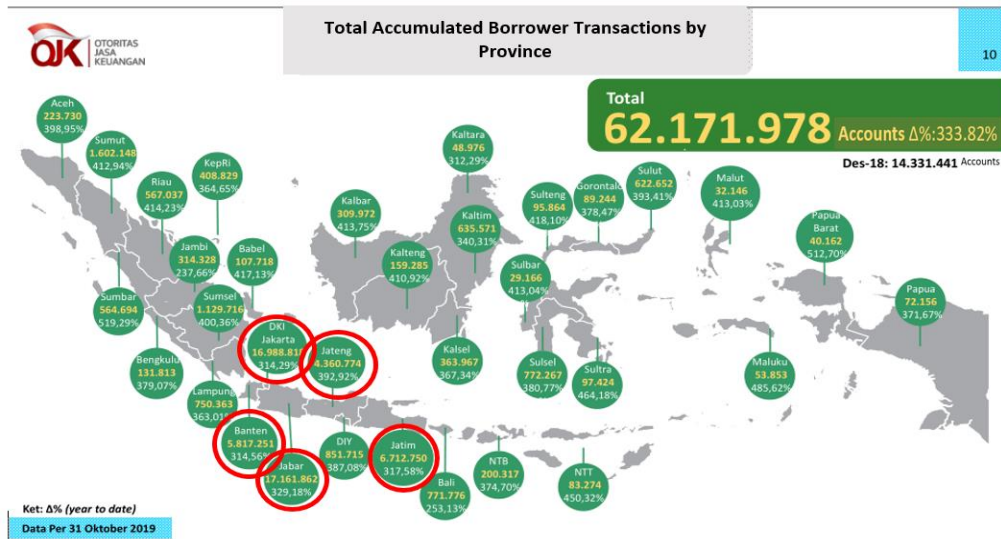


FIGURE 11:
Total Accumulated Borrower Transactions by Province

In addition, related to 5 provinces or regions that have the largest accumulation of borrower transactions in Indonesia are West Java, DKI Jakarta with 16,988,818 accounts, East Java 6,712,750 accounts, Banten 5,817,251 accounts, and Central Java 4,360,774 accounts. Based on this explanation, it can be concluded that the regions or provinces that have the most accumulated lender accounts, lending, borrower accounts, and most borrower transactions in Indonesia are mostly in Java.



3.3. Definition of Vulnerability, Threats and Consequences

ML and TF risk assessment activities that have been carried out in Indonesia, both at the national and sectoral levels, are usually carried out using methods and frameworks adopted from international best practices. In the guidance of the International Monetary Fund (IMF) on "The Fund Staff's Approach to Conducting National Money Laundering or Financing of Terrorism Risk Assessment" in section 7 explained that: "risk can be represented as: $R = f [(T), (V)] \times C$, where represents threat, represent represented vulnerability, and represent consequences ". Based on these guidelines, the formulation for conducting a risk assessment can be formulated as follows:

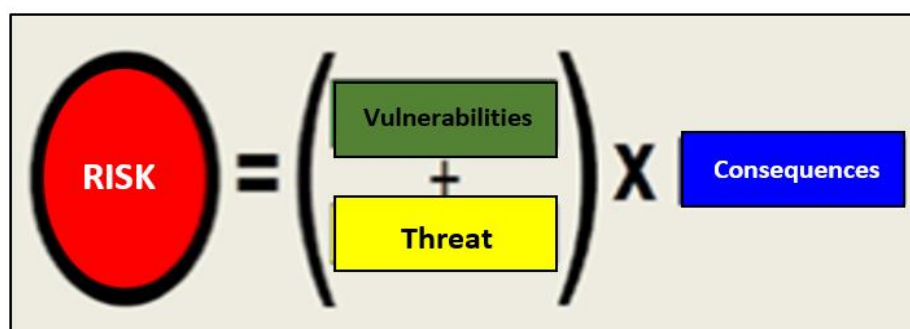


FIGURE 12:
Risk Assessment Formulation

- **Risk** can be interpreted as a possibility of an event and its consequences. Simply stated, risk can be seen as a combination of opportunities that might occur and the level of damage or loss that might result from an event
- **Threat** berarti means a person or group of people, objects or activities that have the potential to cause harm. Threats to PJK arise from external factors, such as risks carried by the Customer.
- **Vulnerabilities** means the things that can be used or support threats or can also be called the factors that illustrate the weaknesses of the implementation of AML and CFT programs owned by PJK.
- **Consequences** means the consequences or losses arising from the ML and TF on the state, institutions, society and/or PJK, both in terms of economic, legal, and social aspects. More broadly, this consequence also includes losses those are directly incurred from criminal acts and terrorism activities themselves.

3.4. International Principle

One of the international principles related to ML and TF is international principles and guidelines published by the Financial Action Task Force on Money Laundering (FATF). Institutionally, FATF fully supports financial innovation that is responsible and in line with FATF standards, and supports the exploration of financial and regulatory technologies opportunities that can improve the effectiveness of AML and CFT implementation. This statement builds on the San Jose Principle



discussed by the participants of the 1st FinTech & RegTech FATF Forum held in San Jose on 25 and 26 May 2017, namely:

- *Fight terrorism financing and money laundering as a common goal. Combatting ML deals a significant blow to the many profit-driven criminal activities, while countering terrorism financing limits the capabilities of terrorist groups to prepare or carry out attacks. As stakeholders, we have a shared interest to prevent the misuse of the financial system from the threats of ML and TF, thereby strengthening financial sector integrity and contributing to safety and security. Only by working together may governments and the private sector effectively achieve these goals.*
- *Encourage public and private sector engagement. Close engagement between governments, the private sector and academia on financial innovations helps to foster a shared understanding of these developments, identify pertinent issues, and facilitates collaboration to address any concerns as they arise.*
- *Pursue positive and responsible innovation. Be on the lookout for innovations that present opportunities to mitigate risks, increase the effectiveness of anti-money laundering and countering the financing of terrorism (APU/PPT) measures, and benefit society in general.*
- *Set clear regulatory expectations and smart regulation which address risks as well as allow for innovation. Better understanding of how existing APU/PPT obligations apply to new technologies, products, services, and new paradigms for the provision of financial services is best achieved by governments and the private sector working together to increase awareness and establish clear guidelines as needed.*
- *Fair and consistent regulation. Aim for a regulatory environment that is commercially neutral, respects the level playing-field and minimises regulatory inconsistency both domestically and internationally.*

Furthermore, the principle issued by FATF that can be linked to FinTech is FATF Recommendation No. 15 regarding New Technology. In FATF Recommendation Number 15, it was stated that “Countries and financial institutions should identify and assess the money laundering or terrorist financing risks that may arise in relation to (a) the development of new products and new business practices, including new delivery mechanisms, and (b) the use of new or developing technologies for both new and pre-existing products. In the case of financial institutions, such a risk assessment should take place prior to the launch of the new products, business practices or the use of new or developing technologies. They should take appropriate measures to manage and mitigate those risks”.

As part of Indonesia's commitment, especially OJK in meeting international principles, this study can be one of the fulfilments of FATF Recommendation No. 15 regarding New Technology.



CHAPTER IV IDENTIFICATION, ANALYSIS, AND DISCUSSION

4.1. Identification of Vulnerabilities, Threats and Consequences related to Information Technology-Based Lending and Borrowing Services in Indonesia

As explained in the previous section in this study, in assessing ML and TF risk there are several aspects that need to be identified, assessed, and analyzed, those are threats, vulnerabilities, and Consequences. Several parameters that can be used in identifying, assessing, and recognizing these three aspects are as follows:

a. ML and TF Threats

1. Real Threats which can be further analyzed based on:
 - a) Number of service users;
 - b) Number of Suspicious Financial Transaction Reports (LTKM);
 - c) Number of Reports on Analysis Results (LHA) of the Financial Transaction Reports and Analysis Center (PPATK); and
 - d) Number of court decisions related to ML and TF.
2. Potential threats that can be further analyzed based on the perceptions and input of experts, PPATK, FSS supervisors, and the perpetrators in the FSS.

b. ML and TF Vulnerability

1. The real vulnerability of financial services institution can be further analyzed based on the level of compliance with the AML and CFT program implementation on:
 - a) Availability of policies and procedures for the implementation of AML and CFT programs;
 - b) Active supervision by the directors and the board of commissioners on the implementation of the AML and CFT programs;
 - c) Availability of an internal control system;
 - d) The reliability of the management information system; and
 - e) Adequacy and capability of human resources in supporting the implementation of the AML and CFT programs.
2. Potential vulnerabilities which are further analyzed based on:
 - a) Self-assessment by actors in the FSS of their level of compliance with the implementation of the AML and CFT programs; and
 - b) Perception of the FSS supervisor.

c. ML and TF Consequences

1. Real Consequences which can be further analyzed based on:
 - a) The nominal amount of products/services used by service users;
 - b) Nominal amount related to LTKM;



- c) Nominal amount related to transactions indicated by ML and TF in LHA PPAATK; and
 - d) Nominal amount related to ML and TF in the Court Decision file.
2. Potential consequences that can be further analyzed based on the perceptions and input of experts/experts, PPAATK, the FSS supervisor, and financial industry institution in FSS.

In the process of preparing this study, not all parameters in the three aspects can be fulfilled because the data/related information needed is not yet available because of the following matters:

- a. FinTech P2PL is a relatively new industry in Indonesia. Therefore, some of the required data/detailed information has not been recorded and/or properly administered, either by FinTech P2PL provider, or by the authorities because there is indeed no comprehensive integrated reporting system. In addition, until now there have been no cases of ML and TF that have occurred involving P2PL.
- b. Implementation of the obligation to implement AML and CFT programs for FinTech P2PL providers which only began in 2021, so that the authorities have not yet assessed the compliance of AML and CFT program implementation for FinTech P2PL provider. In addition, the implementation of the AML and CFT program by the FinTech P2PL provider has not yet begun because the FinTech P2PL provider has not yet been required to submit LTKM to PPAATK. On the other hand, LTKM is often the basis for preparing LHA PPAATK.

By looking at the conditions as mentioned above, in writing process of this study, several parameters used in identifying, assessing and analyzing the risks of ML and TF related to P2PL are as follows:

a. Threat

1. Real threats are analyzed based on Number of Lenders and Recipients.
2. Potential threats are further analyzed based on the perceptions and input of experts / experts, PPAATK, FSS supervisors, as well as FinTech P2PL providers.

b. Vulnerability

Potential vulnerabilities analyzed based on:

1. Self-assessment by FinTech P2PL provider regarding their level of compliance with the implementation of the AML and CFT program in terms of the following:
 - a) Availability of policies and procedures for the implementation of AML and CFT programs;
 - b) Active supervision by the directors and the board of commissioners on the implementation of the AML and CFT programs;
 - c) Availability of an internal control system;
 - d) The reliability of the management information system; and
 - e) Adequacy and capability of human resources in supporting the implementation of the AML and CFT programs.
2. Expert perceptions and input, PPAATK, FSS supervisor, and FinTech P2PL provider.



c. Consequences

1. Real consequence is analyzed based on the nominal amount of loan disbursement.
2. Potential consequence that can be further analyzed based on the perceptions and input of experts, PPATK, FSS supervisors, as well as, FinTech P2PL providers.

4.2. Analysis and Discussion of Vulnerability, Threats, and Consequences of ML and TF related to Information Technology-Based Lending and Borrowing Services in Indonesia

As described in section 4.1. above, the analysis and discussion that will be described in this section will use an approach to 3 (three) aspects, those are vulnerability, threat, and consequence.

4.2.1. Analysis and Discussion of Vulnerability Aspects

Analysis and discussion of vulnerability aspects will be carried out using the FinTech P2PL provider self-assessment in relation to the implementation of 5 (five) pillars of the AML and CFT program implementation, those are (1) active supervision of directors and commissioners on the implementation of the AML and CFT programs, (2) procedures for implementing AML and CFT programs (3) availability of internal control systems, (4) Reliability of management information systems, and (5) adequacy and capability of human resources in supporting the implementation of AML and CFT programs. In addition to the 5 (five) pillars of AML and CFT program implementation, the analysis, and discussion of aspects of vulnerability can also be viewed from the institutional factors of the FinTech P2PL provider itself, including ownership, management, and the area of domicile.

Vulnerability Based on Institution Factors

The vulnerability of FinTech P2PL providers to the risk of ML and TF related to institutional factors can be reviewed, among others, from the ownership, management and area of residence parameters. The assessment of this institutional aspect was identified, assessed and analyzed based on empirical data on the development of P2PL in Indonesia.

A. OWNERSHIP

Based on FinTech Lending Statistics data as of 27 November 2019, it can be seen that from the total number of Fintech P2PL provider, 100 (one hundred) of them are owned by domestic parties and 44 (forty-four), others are foreign investments, as shown below:

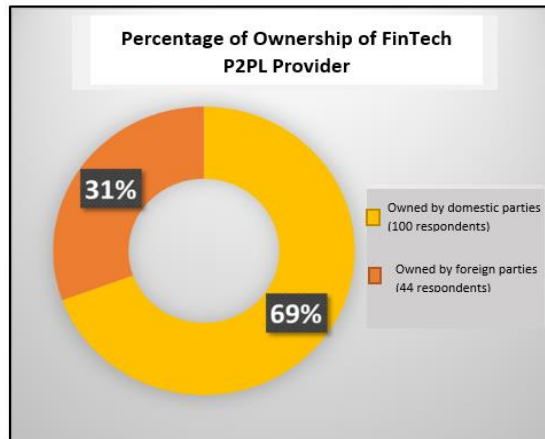


FIGURE 13:
Percentage of Ownership of FinTech P2PL Provider

Based on the ownership statistics above, the most numerous are P2PL Fintech providers owned by domestic parties. However, this does not mean that the FinTech P2PL provider owned by a domestic party has a higher risk when compared to the FinTech P2PL provider owned by a foreign party. Entity owned by a foreign party will have a greater ML and TF risk compared to an entity owned by a domestic party. This can occur because owners who are domiciled abroad are more difficult to supervise and control because they are in different jurisdictions. Hence, the applicable law in Indonesia have some limitations.

B. MANAGEMENT STRUCTURE

Based on the data from the self-assessment of FinTech P2PL providers, it is known that around 20% or as many as 4 FinTech P2PL providers who were respondents stated that in the management structure (Directors and Board of Commissioners), there are management who are foreign citizens. Meanwhile, around 80% or as many as 16 FinTech P2PL providers who were the respondents stated that in the management structure (Directors and Board of Commissioners) there were no foreigners. As for simply, the results of the self-assessment referred as shown below:

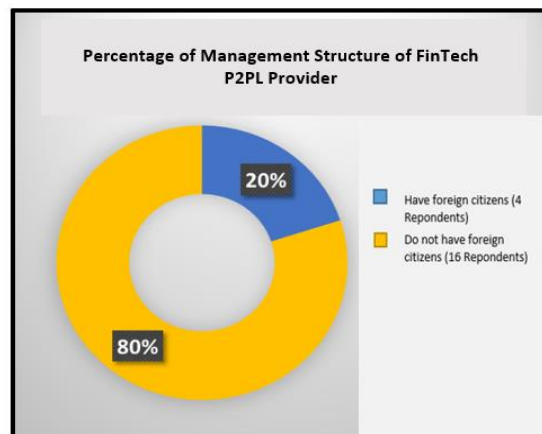


FIGURE 14:
Percentage of Management Structure of FinTech P2PL Provider



C. REGION OF DOMICILE

Based on FinTech lending statistics data as of 27 November 2019, it can be seen that the majority of FinTech P2PL providers are domiciled in the Greater Jakarta area, with a total of 135 providers. While a small proportion of FinTech P2PL providers are in the Surabaya region with a total of 4 FinTech P2PL providers, in Bandung there are 2 FinTech P2PL providers, and in Lampung, Makassar and Badung (Bali), each of which has 1 FinTech P2PL provider. Thus, it can simply be said that Greater Jakarta has the highest ML and TF risk based on the position of the FinTech P2PL Providers.

Vulnerability Based on Implementation Factors 5 (Five) Pillars of AML and CFT Program Implementation

The vulnerability of FinTech P2PL provider to the risks of ML and TF related to the implementation factors of 5 (five) pillars of AML and CFT program implementation, those are identified, assessed, and analyzed based on the self-assessment of FinTech P2PL provider related to their implementation in implementing 5 (five) pillars of APU program implementation. and PPT, those are (1) active supervision of directors and commissioners on the implementation of AML and CFT programs, (2) availability of policies and procedures for implementing AML and CFT programs, (3) availability of internal control systems, (4) reliability of the management information system, and (5) the adequacy and capability of human resources in supporting the implementation of the AML and CFT programs.

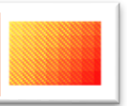
The author team has submitted questionnaires to 25 (twenty-five) FinTech P2PL providers. As for the 25 (twenty-five) FinTech P2PL providers, only 20 (twenty) FinTech P2PL providers have responded to the request for filling the questionnaire. Furthermore, some things obtained based on the results of data processing on the self-assessment through the questionnaire are as follows:

A. PILLAR OF ACTIVE SUPERVISION OF THE BOARD OF DIRECTORS AND THE BOARD OF COMMISSIONERS

The team tried to measure the level of implementation of active supervision of the directors and the board of commissioners related to the implementation of the AML and CFT programs through several questions, including (1) understanding of ML and TF, (2) understanding of ML and TF risk, (3) understanding of program implementation AML and CFT, and (4) the existence of a special work unit responsible for implementing the AML and CFT program. Based on the results of the self-assessment through the questionnaire, the following results were obtained:

(1) The Understanding of ML and TF

Based on the data from the self-assessment of the FinTech P2PL provider it can be seen that 100% or all of the FinTech P2PL providers who were the



respondents stated that they understood ML and TF. The results of the self-assessment referred as shown below:

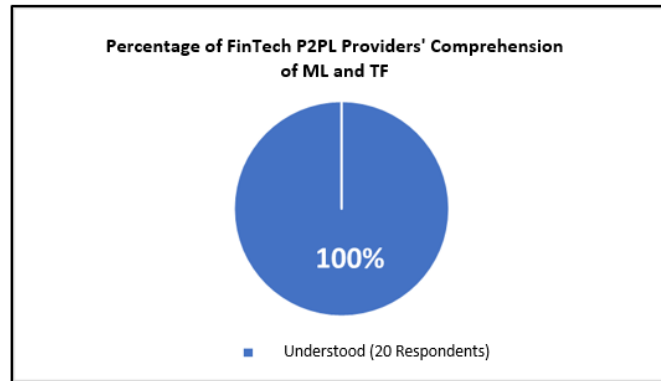


FIGURE 15:
Percentage of FinTech P2PL Providers' Comprehension of ML and TF

(2) The Comprehension of ML and TF Threats

Based on data from the results of self-assessment of FinTech P2PL provider, it can be used in around 100% or all FinTech P2PL providers who have violated the ML and TF. The results of the self-assessment is in the Figure below:

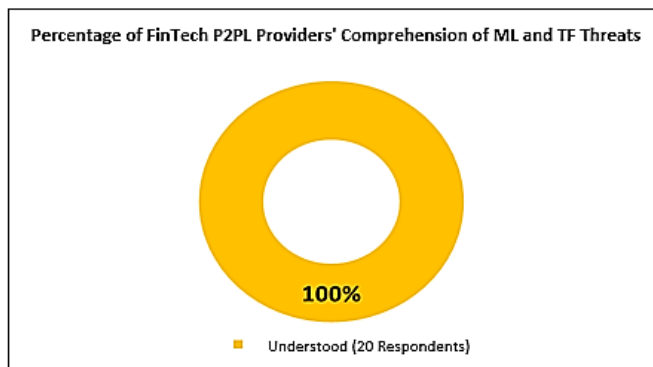


FIGURE 16:
Percentage of FinTech P2PL Providers' Comprehension of ML and TF Threats



(3) The Comprehension of AML and CFT Program Implementation

Based on data from the self-assessment results of FinTech P2PL provider, it can be seen that around 95% or as many as 19 (nineteen) FinTech P2PL providers who were the respondents stated that they have understood the implementation of the AML and CFT programs. Meanwhile, around 5% or as many as 1 (one) FinTech P2PL provider who became a respondent stated that they did not understand the application of the AML and CFT program. The results of the self-assessment referred as shown below:

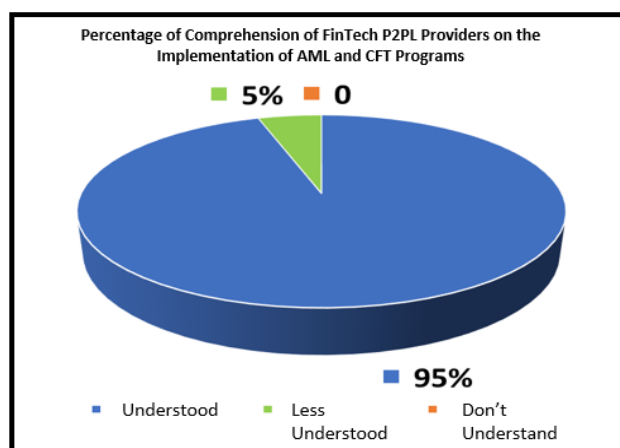


Figure 17:
Percentage of Comprehension of FinTech P2PL Providers on the Implementation of AML and CFT Programs

(4) Existence of Special Work Units Responsible for the Implementation of the AML and CFT Programs

Based on the data from the self-assessment of the FinTech P2PL provider, it can be seen that around 40% or as many as 8 (eight) FinTech P2PL providers who were the respondents stated that there is a special work unit responsible for implementing the AML and CFT programs in their companies. Meanwhile, around 60% or as many as 12 (twelve) FinTech P2PL providers who were the respondents stated that they did not have a special work unit referred to in their company. The results of the self-assessment referred as shown below:

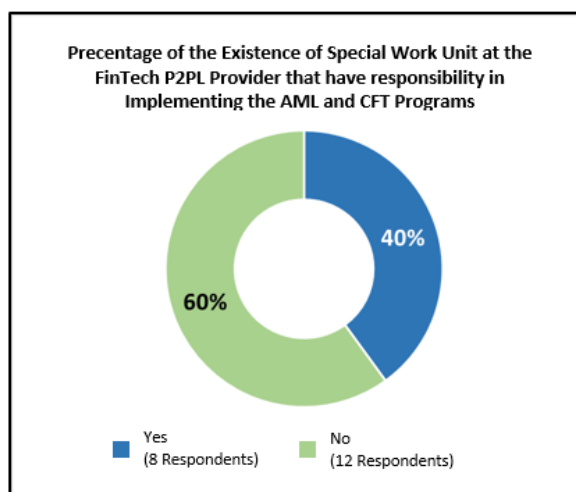


FIGURE 18:
Percentage of the Existence of Special Work Unit at the FinTech P2PL Provider that have responsibility in Implementing the AML and CFT Programs

B. PILLAR POLICY AND PROCEDURE

The team tried to measure the level of implementation of policies and procedures related to the implementation of the AML and CFT program through several questions, including (1) the existence of policies and procedures regarding the implementation of AML and CFT programs, (2) the existence of policies and procedures regarding Customer Due Diligence (CDD) on FinTech P2PL provider, and (3) understanding of FinTech P2PL provider regarding the source of funds to be lent through the platform. Based on the results of the self-assessment through the questionnaire, the following results were obtained:

(1) Existence of Policies and Procedures regarding the Implementation of AML and CFT Programs

Referring to the data of the self-assessment results of the FinTech P2PL Providers, it can be seen that 55% or 11 (eleven) FinTech P2PL Providers who are respondents stated that there are policies and procedures regarding the implementation of the AML and CFT Programs in their companies. Meanwhile, as many as 45% or 9 (nine) FinTech P2PL providers who were respondents stated that there were no such policies and procedures in their company. The results of the self-assessment referred as shown below:

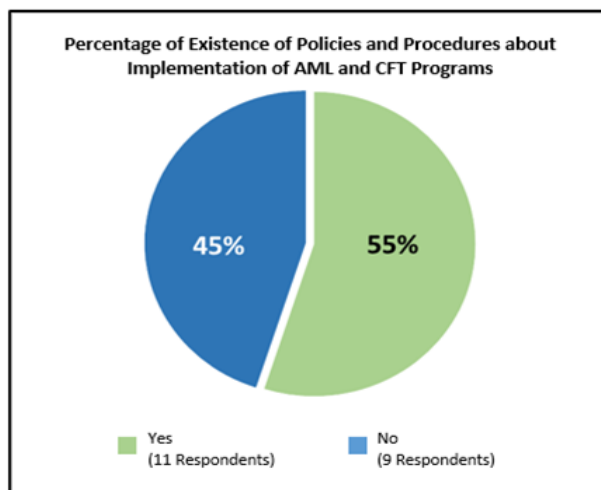
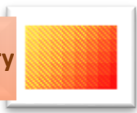


FIGURE 19:
Percentage of Existence of Policies and Procedures about Implementation of AML and CFT Programs

- (2) Existence of Policies and Procedures Regarding CDD in FinTech P2PL Provider
- Referring to the data of the self-assessment results of the FinTech P2PL Providers, it can be seen that 90% or 18 (eighteen) FinTech P2PL Providers who are respondents stated that there are policies and procedures regarding CDD in their companies. Meanwhile, as many as 10% or 2 (two) FinTech P2PL Providers who were respondents stated that there were no such policies and procedures in their company. The results of the self-assessment referred as shown below:

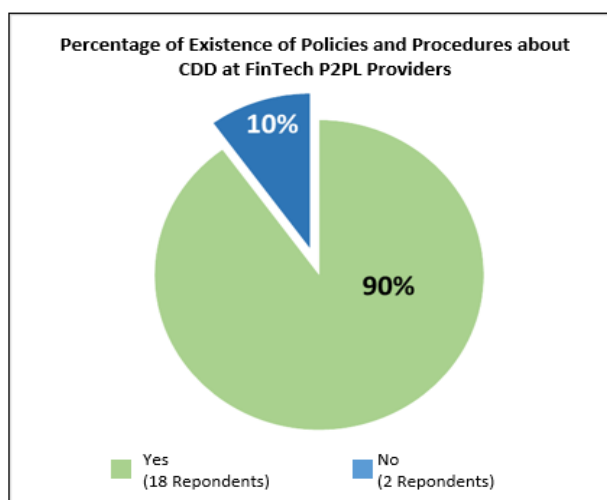
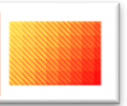


FIGURE 20:
Percentage of Existence of Policies and Procedures about CDD at FinTech P2PL Providers

- (3) Fintech P2PL Provider's Comprehension of the Source of the Fund to be lent by the Lender through the Platform

Referring to the data of the results of self-assessment of FinTech P2PL providers, it can be accessed that 60% or 12 (twelve) FinTech P2PL providers who are



respondents state how to obtain funds lent by lenders (lenders) through the platform. Meanwhile, as many as 40% or 8 (eight) FinTech P2PL providers who were respondents said they did not understand the source of the funds lent by the lender through the platform. The results of the self-assessment are in the figure below:

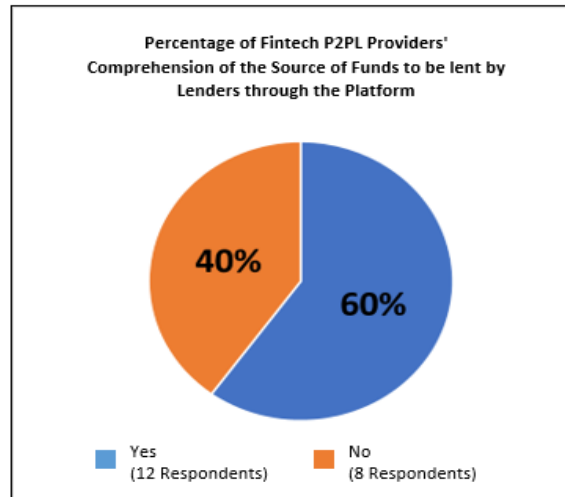


Figure 21:
Percentage of Fintech P2PL Providers' Comprehension of the Source of Funds to be lent by Lenders through the Platform

C. PILLAR INTERNAL CONTROL SYSTEM

The team tried to measure the level of the internal control system related to the implementation of the AML and CFT program through questions about the existence of an internal audit work unit that functions to audit the implementation of AML and PPT programs. Based on the results of the self-assessment through a questionnaire, it was found that 40% or 8 (eight) FinTech P2PL providers who were there respondents stated that there was an internal audit work unit that functioned to audit the implementation of the AML and CFT programs in his company. Meanwhile, 60% or 12 (twelve) FinTech P2PL providers who were the respondents stated that there was no internal audit work unit referred to in their company. The results of the self-assessment referred as shown below:

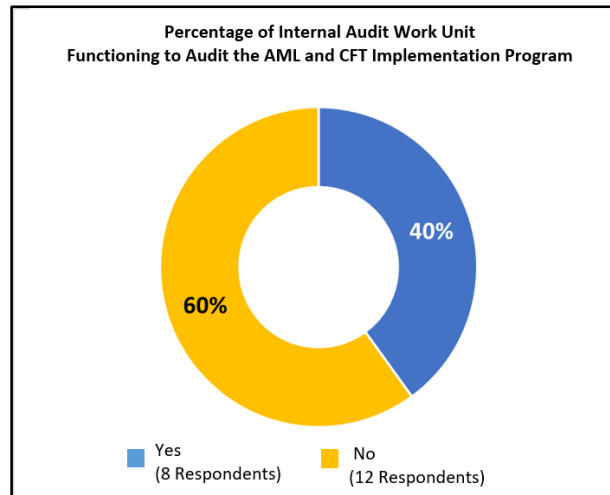
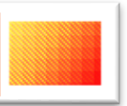


Figure 22:
Percentage of Internal Audit Work Unit
Functioning to Audit the AML and CFT Implementation Program

D. PILLAR MANAGEMENT INFORMATION SYSTEM

The team tried to measure the level of management information systems related to the implementation of the AML and CFT program through several questions, including (1) the existence of the system to detect indications of the possibility of ML and TF carried out by FinTech P2PL provider, (2) the ability of the system to group users based on potential threats of ML and TF, (3) the ability of the system to identify users who fall into the category of Political Exposed Person (PEP). Based on the results of the self-assessment through the questionnaire, the following results were obtained:

(1) Existence of a System to Detect Indications of Possible ML and TF Performed by Fintech P2PL Provider

Based on data from the self-assessment results of P2PL FinTech providers, it can be seen that 35% or 7 (seven) FinTech P2PL providers who are the respondents stated that they have a system to detect indications of possible ML and TF conducted by FinTech P2PL providers. Meanwhile, as many as 65% or 13 (thirteen) FinTech P2PL providers who were the respondents stated that they did not have the system in question. The results of the self-assessment referred as shown below:

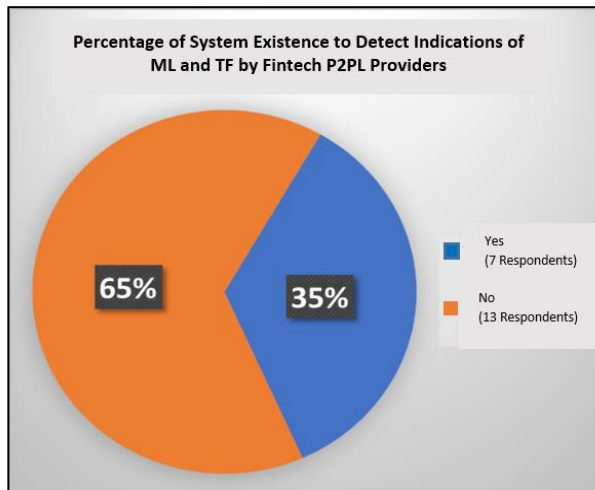


FIGURE 23:
Percentage of System Existence to Detect Indications of ML and TF by Fintech P2PL Providers

(2) The Ability of the System in Grouping Users based on the Potential Threat of ML and TF

Based on data from the self-assessment results of FinTech P2PL providers it can be seen that 20% or 4 (four) FinTech P2PL providers who are the respondents state that the system owned is capable of grouping users based on potential threats of ML and TF. Meanwhile, as many as 80% or 16 (sixteen) FinTech P2PL providers who were respondents stated that the system owned was unable to classify users based on the potential threat of ML and TF. As for simply, the results of the self-assessment referred as shown below:

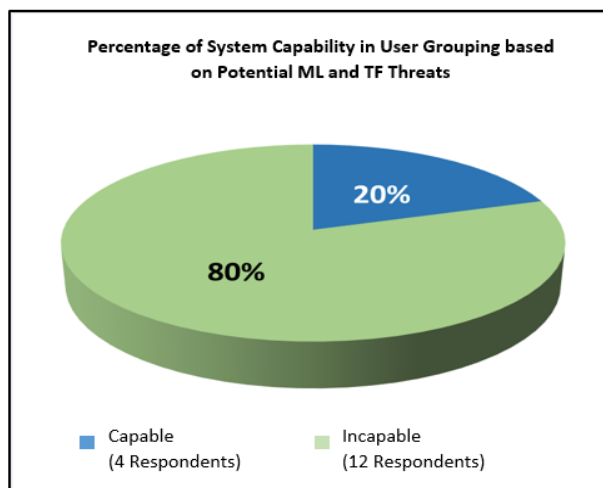


FIGURE 24:
Percentage of System Capability in User Grouping based on Potential ML and TF Threats



(3) The Ability of The System to Identify Users in the PEP Category

Based on data from the results of self-assessment of P2int Fintech providers, it can be seen that 50% or 10 (ten) FinTech P2PL providers who are respondents stated that the system owned is capable of identifying users included in the PEP category. Meanwhile, the other 50% or 10 (ten) FinTech P2PL providers who were the respondents stated that the system owned was unable to identify users included in the PEP category. The results of the self-assessment referred as shown below:

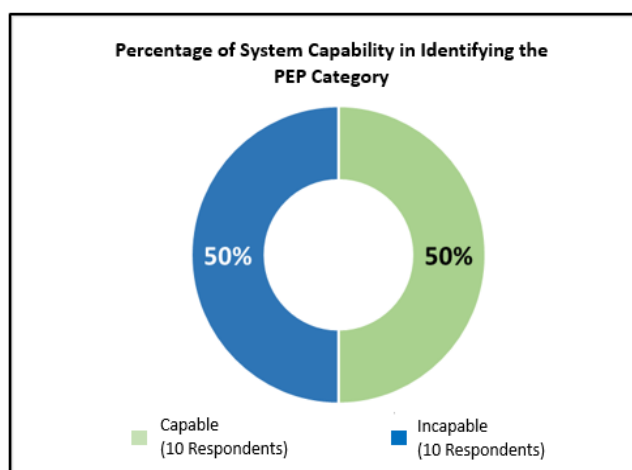


FIGURE 25:
Percentage of System Capability in Identifying the PEP Category

E. PILLAR HUMAN RESOURCES AND TRAINING

The team tried to measure the level of human resources and training related to the implementation of the AML and CFT program through questions about the existence of periodic AML and CFT program implementation training. Based on the results of the self-assessment through a questionnaire, it was found that 85% or 17 (seventeen) FinTech P2PL providers who were the respondents stated that there were periodic of AML and CFT programs in their companies. Meanwhile, 15% or 3 (three) FinTech P2PL providers who were the respondents stated that there was no such training at their companies. The results of the self-assessment referred as shown below:

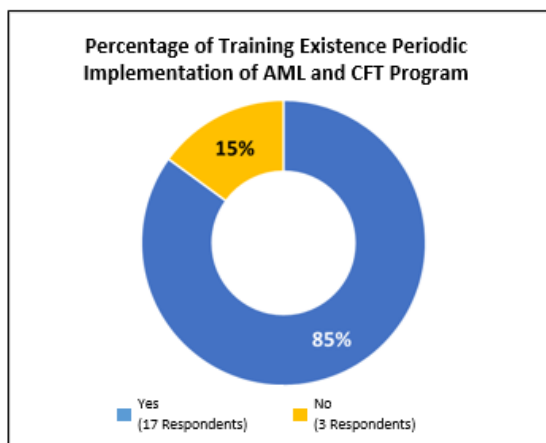


Figure 26:
Percentage of Training Existence Periodic Implementation of AML and CFT Program

1.2.1. Threat Analysis and Discussion

The risk threat of ML and TF for FinTech P2PL providers can be reviewed from the number of FinTech P2PL users, those are borrower. Furthermore data on the number of Users can also be mapped, both by type of User and distribution of Users by region.

Based on FinTech Lending Statistics as of 27 November 2019, it is known that the number of Lenders is 578,158 entities, while the number of borrowers is 15,986,723 entities.

A. THREATS UNDER TYPES OF USERS

User types can be classified by Type (1) type of entity, i.e. individual or business entity, (2) origin i.e. domestic or foreign, (3) gender, and (4) age classification. Whereas the data types of entities and lenders, P2PL providers in Indonesia are as follows: (1) type of entity, i.e. individual or business entity, (2) origin; domestic or foreign, (3) gender, and (4) age classification. The data on the types of entities and the origin of lenders and borrowers of FinTech P2PL Providers in Indonesia are as follows:

Table 1:
Data on Entity Type and Origin of the Lender and Borrower:

USER	TYPES OF ENTITIES		ORIGIN	
	INDIVIDUAL	BUSINESS ENTITY	DOMESTIC	FOREIGN
(Lender)	557.760 (99.82%)	1.006 (0.18%)	555.240	3.526
(Borrower)	15.967.539 (99.88%)	19.184 (0.12%)	15.987.723	0

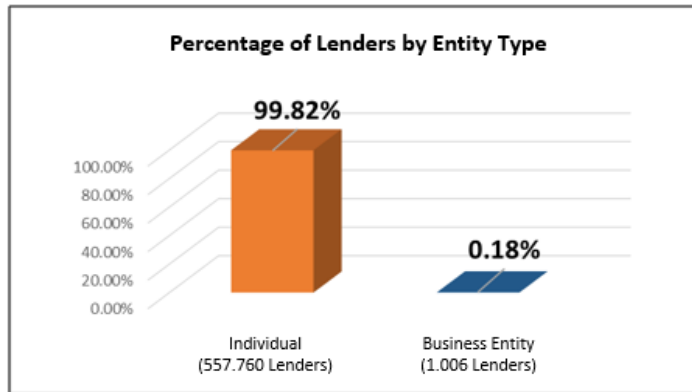


Figure 27:
Percentage of Lenders by Entity Type

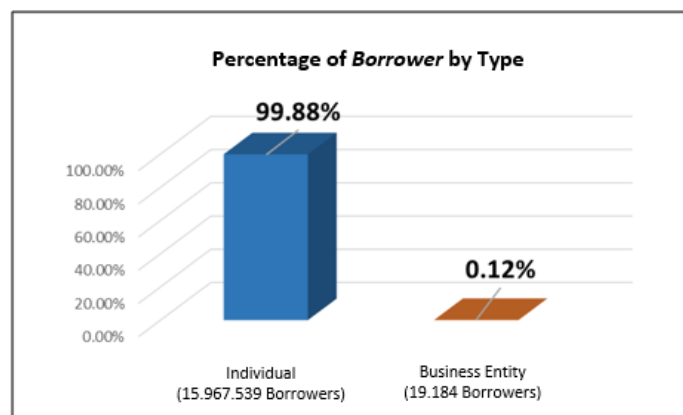


FIGURE 28:
Percentage of Borrower by Type

Furthermore, specifically for Lenders and individual Borrowers, it can be classified according to gender and age classification as follows:

TABLE 2:
Data on Number of Lenders and Borrowers based on Gender and Age Classification

User	GENDER		AGE			
	MALE	FEMALE	<19	19-34	34-54	>54
(Lender)	34.525.358 (61.90%)	211.503 (37.92%)	7.084 (1.27%)	389.874 (69.90%)	148.420 (26.61%)	12.382 (2.22%)
(Borrower)	8.244.040 (51.63%)	7.704.338 (48.25%)	132.531 (0.83%)	11.266.695 (70.56%)	4.386.283 (27.47%)	182.030 (1.14%)

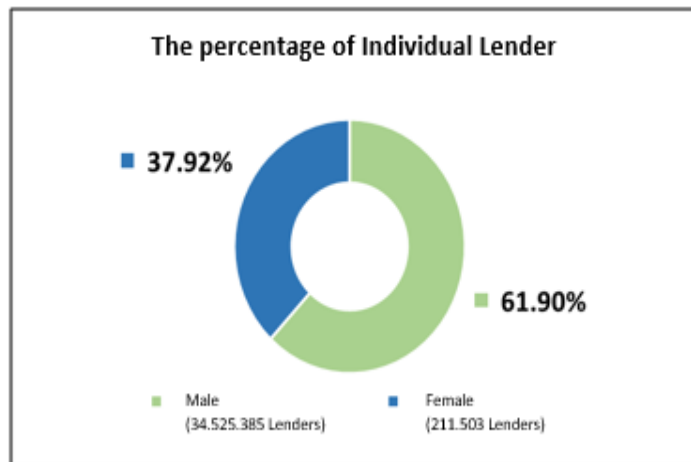


FIGURE 29:
Percentage of Individual Lender

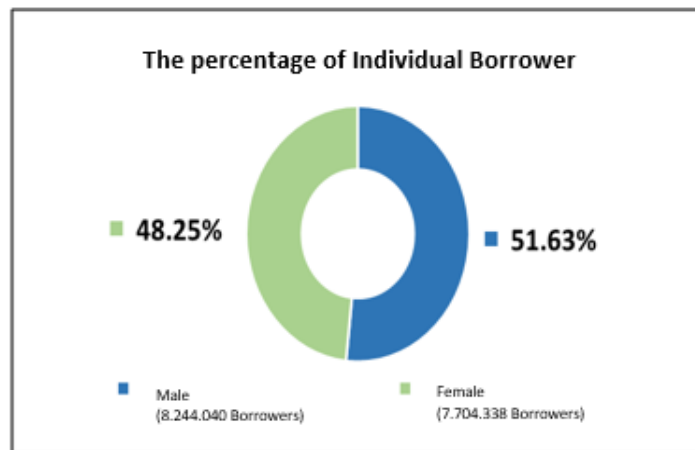


FIGURE 30:
Percentage of Individual Borrower

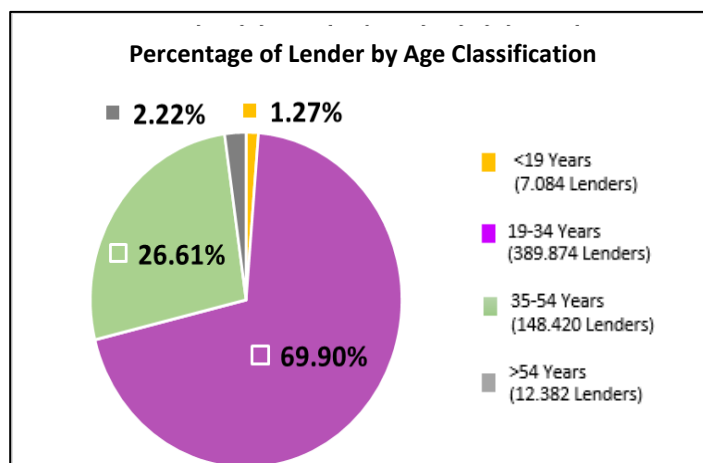


FIGURE 31:
Percentage of Lender by Age Classification

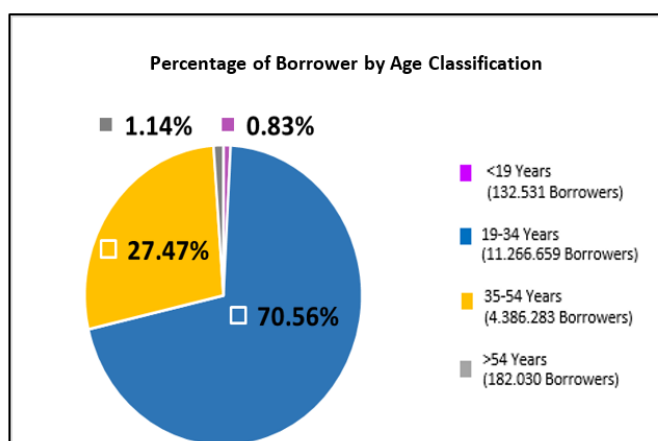


FIGURE 32:
Percentage of Borrower by Age Classification

Looking at the statistical data above, the number of individual Users, both for lenders and borrower does have a number that is further than the business entity Users. However, this does not mean that individual users always have a higher level of ML and TF risk compared to business entity users because according to international best practice business, entities (corporations) actually become one of the most high-risk entities which associated with ML and TF.

For example, in the document summarizing 100 ML and TF cases issued by Egmont Group, it is said that business entities (corporations) are often misused as a means of ML and TF through a scheme of concealment within business structures and misuse of legitimate businesses.

Furthermore, when viewed from gender and age classification, FinTech P2PL users who have the highest risk ML and TF are users of male and users who have a productive age range, which is the age of 19-34 years.

B. THREATS ARE BASED ON GEOGRAPHIC AREAS

The threat of ML and TF risk based on geographic area can be done through the User spreading per region approach. The 5 (five) provinces or regions based on the distribution of the largest users, both lenders and borrowers, according to FinTech Lending Statistic Data as of October 31, 2019 are as follows:



Table 3:
The 5 (Five) Provinces or Regions Based on The Distribution of The Largest Users, Lenders and Borrowers

(LENDER)			(BORROWER)		
NUMBER	PROVINCES	USERS	NUMBER	PROVINCES	USERS
1	DKI Jakarta	264.881 entities	1	West Java	4.731.707 entities
2	West Java	91.323 entities	2	DKI Jakarta	3.839.061 entities
3	East Java	45.237 entities	3	East Java	1.879.402 entities
4	Central Java	35.364 entities	4	Banten	1.455.506 entities
5	Banten	31.095 entities	5	Central Java	1.225.530 entities

Based on the data above, it can be said that the highest risk level of ML and TF based on geographic area is DKI Jakarta, West Java, East Java, Central Java, and Banten.

1.2.2. Analysis and Discussion of Consequence Aspects

The risk consequence aspects of ML and TF for FinTech P2PL providers can be reviewed in terms of the amount of FinTech P2PL lending, which can then be mapped based on (1) loan range, (2) lending objectives, and (3) distribution of loans by region.

A. CONSEQUENCE ASPECT BASED ON LOAN RANGE

Based on the results of the self-assessment it is known that the percentage range of loanable funds by FinTech P2PL borrowers is as follows:

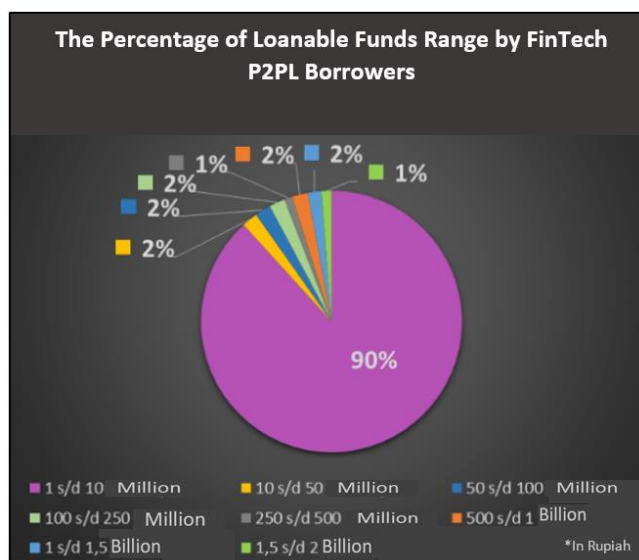


FIGURE 33:
The Percentage of Loanable Funds Range by FinTech P2PL Borrowers



Based on the foregoing, it can be seen that the loan range of Rp1.000.000,- to Rp10.000.000,- Rupiahs is a range of loans that have the highest level of consequence of ML and TF.

B. CONSEQUENCE ASPECT BASED ON LOAN PURPOSES

Based on the results of the self-assessment, it is known that the percentage of loan objectives by FinTech P2PL borrowers is as follows:

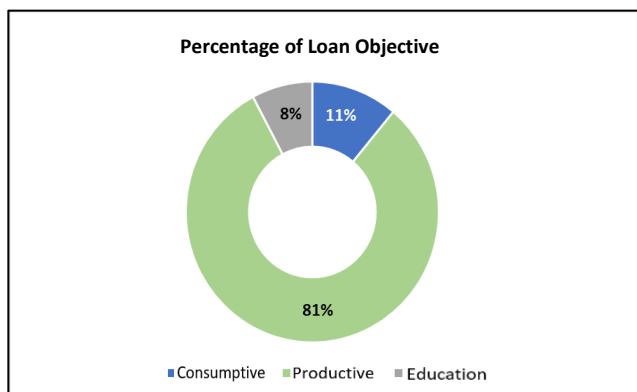


Figure 34:
Percentage of Loan Objective

Based on the figure 34, it can be seen that the purpose of the loan for productive purposes is the one that has the most risky-consequence of ML and TF.

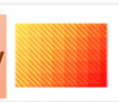
C. CONSEQUENCE ASPECT BASED ON GEOGRAPHIC AREAS

Aspects of the consequences of ML and TF risk based on geographic area can be done through a nominal approach to lending based on region. The 5 (five) regions with the largest nominal loan distribution according to FinTech Lending Statistics as of October 31, 2019 are as follows:

Table 4:
Data of 5 (five) Provinces or Regions based on the Largest Distribution of Loans

NUMBER	PROVINCE	NOMINAL DISTRIBUTION OF LOANS
1	Central Java	43.370,04 billion
2	DKI Jakarta	21.060,42 billion
3	West Java	18.364,10 billion
4	East Java	7.468,56 billion
5	Banten	6.268,47 billion

Based on the data above, it can be said that the highest level of risk consequence of ML and TF based on geographic area is Central Java, DKI Jakarta, West Java, East Java, and Banten. Referring to the description above, it can be concluded that the results of ML and TF risk for each aspect are as follows:



**Table 5:
ML and TF Risk Mapping Results**

ASPECT	OVERVIEW	Mapping Results
VULNERABILITY	Institutional Factors	<ol style="list-style-type: none"> 1. FinTech P2PL providers owned by foreign investment have higher ML and TF vulnerability levels according to ownership based on institutional factors according to the ownership; 2. FinTech P2PL whose management has foreign citizenship has a higher level of ML and TF vulnerability based on institutional factors according to management; and 3. Greater Jakarta region has a higher level of ML and TF vulnerability based on institutional factors according to the region of residence (domicile).
	Pillar of Active Supervision Of The Board Of Directors And The Board Of Commissioners	<ol style="list-style-type: none"> 1. All FinTech P2PL providers stated that they have comprehension on ML and TF; 2. All FinTech P2PL Providers stated that they have comprehension on threats of ML and TF; 3. Most of the FinTech P2PL Providers (95%) stated that they had comprehension on the implementation of the AML and CFT program; and 4. Most of the FinTech P2PL providers (60%) state that they do not have a special work unit responsible for implementing the AML and CFT program.
	Pillar of Policies and Procedures	<ol style="list-style-type: none"> 1. Most FinTech P2PL Providers (55%) state that there are policies and procedures regarding the application of the AML and CFT programs in their companies; 2. Most of the FinTech P2PL Providers (90%) state that there are policies and procedures regarding CDD for Users; and 3. Most FinTech P2PL Providers (60%) state that they can find out the source of funds lent (lenders) through the platform.
	Pillar of the Internal Control System	Most of the FinTech P2T providers (60%) stated that there was no internal audit work unit that functioned to audit the implementation of the AML and CFT programs.
	Management Information System Pillar	<ol style="list-style-type: none"> 1. Most of the FinTech P2PL providers (65%) stated that they did not have a system to detect indications of possible ML and TF; 2. Most of the FinTech P2PL providers (80%) stated that the system they have is unable to classify users based on potential ML and TF threats; and 3. Some FinTech P2PL providers (50%) stated that the system they have is able to identify users who fall into the PEP category. While some other FinTech P2PL providers (50%) stated that the system they have is unable to identify users who fall into the PEP category.



ASPECT	OVERVIEW	Mapping Results
	Pillar of Human Resources and Training	Most of the FinTech P2PL providers (85%) stated that they already have an AML and CFT implementation program on a periodic basis.
Threat	User Type Factor	<ol style="list-style-type: none"> 1. Corporations are FinTech P2PL user entity types that have the highest ML and TF threat level based on the type of entity; 2. For the type of individual user, men are the highest threat level ML and TF based on gender; and 3. For the type of individual User, users with an age range of 19-34 years is being the highest threat level ML and TF based on the age range.
	Geographic Areas Factor	DKI Jakarta, West Java, East Java, Central Java, and Banten are the regions with the highest ML and TF threats based on geographic area.
Consequences	Loan Range Factors	<i>Loan Range Rp1,000,000 – Rp10,000,000, - is the highest loan range for ML and TF threats.</i>
	Loan Purpose Factors	The purpose of the loan for productive purposes is the highest level of threat of ML and TF.
	Factors Distribution of Loans Distribution by Region	Central Java, DKI Jakarta, West Java, East Java, and Banten are the provinces or regions with the highest level of AML and CFT threats.

4.3. Potential and Mitigation of ML and TF Risk in General

In addition to the analysis and discussion based on each aspect of risk assessment in detail, as described in section 4.2. above, it also needs to be understood that in the implementation of FinTech P2PL, there are potential risks of ML and TF inherent in the three parties in the operation of FinTech P2PL, they are lenders, P2T FinTech providers, and also borrower, as the scheme below.

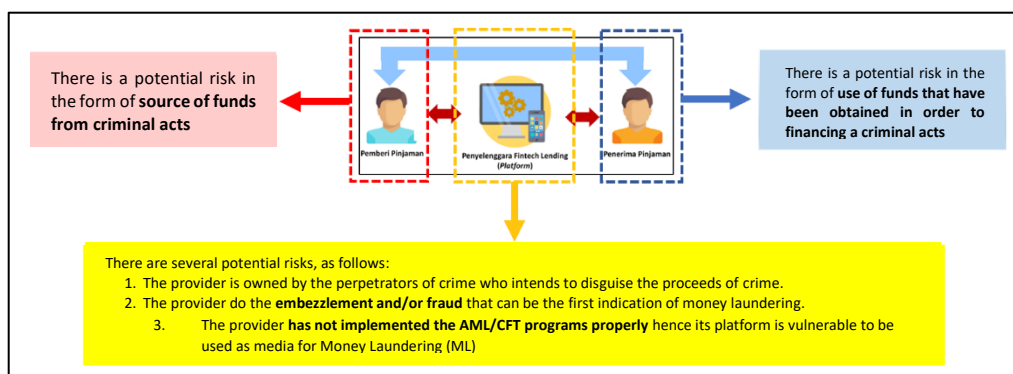
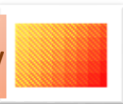


FIGURE 35:
Scheme of Loan Potential ML and TF Risk Lenders, FinTech P2PL Provider, and FinTech P2PL Borrower



Based on the ML and TF risk schemes in the application of FinTech P2PL above, it is mapped that the risks inherent to each party are as follow:

TABLE 6:
ML and TF Risk Mapping based on the Parties in FinTech P2PL

The Parties	Potential Risk of ML and TF
<i>Lender</i>	The source of funds of the lender comes from a criminal offense, so that through FinTech P2PL concerned it intends to do money laundering
<i>FinTech P2PL Provider</i>	4.2.1.1. FinTech P2PL provider is owned by a criminal who intends to disguise the proceeds of the crime; 4.2.1.2. FinTech P2PL provider commits the fraud which will be the beginning of ML, that is as one of the criminal acts from money laundering; and 4.2.1.3. FinTech P2PL provider do not implement the AML and CFT programs properly, so that the platforms owned are vulnerable to be used as a means of ML and TF by criminals.
<i>Borrower</i>	Funds obtained by the borrower can be used to fund a crime, especially the TF.

1. To prevent potential ML and TF risks related to the three parties implementing FinTech P2PL, as described in the table above, the team has identified several steps/ mitigation efforts that can be carried out, as follows:
 1. Potential ML and TF risks associated with lenders, that is the sources of lender funds originating from criminal acts, can be mitigated through good AML and CFT implementation by FinTech P2PL providers and their supervision by the OJK over the implementation of the program implementation. The AML and CFT are by the FinTech P2PL provider. Thus, the use of FinTech P2PL by criminals in money laundering will be even smaller.
 2. Potential ML and TF risks related to FinTech P2PL providers, can be mitigated according to their respective potential risks, as follows:
 - a. For potential risks carried out by the owner or FinTech P2PL Provider itself, those are (1) the FinTech P2PL Provider is owned by a criminal who intends to disguise the proceeds of his crime and (2) the FinTech P2PL provider commits fraud and/or embezzlement which will be the beginning of the fraud ML, that is as one of the criminal acts originating from money laundering, can be mitigated from the institutional and licensing aspects issued by the OJK as well as the actions of the OJK together with law enforcement officials.



CHAPTER V CONCLUSION AND RECOMMENDATION

5.1. Conclusion

Through this study, several conclusions have been reached as follows:

1. Based on the results of self-assessment of all respondents of FinTech P2PL, it can be seen that the implementation of the AML and CFT program has been started and implemented by almost all FinTech P2PL providers who were the respondent, although the obligation to implement the AML and CFT program for FinTech P2PL providers is only in effect 2021. The detailed results of the vulnerability assessment are as follows:

OVERVIEW	MAPPING RESULT
Institutional Factors	<ol style="list-style-type: none"> 1. FinTech P2PL providers owned by foreign investment have higher ML and TF vulnerability levels according to ownership based on institutional factors according to ownership; 2. FinTech P2PL providers management has foreign citizenship has a higher level of ML and TF vulnerability based on institutional factors according to management; and 3. Greater Jakarta region has a higher level of ML and TF vulnerability based on institutional factors according to the region of residence (domicile).
Pillar of Active Supervision of The Board of Directors and the Board of Commissioners	<ol style="list-style-type: none"> 1. All FinTech P2PL providers stated that they have comprehension on ML and TF; 2. All FinTech P2PL providers stated that they have comprehension on threats of ML and TF; 3. Most of the FinTech P2PL providers (95%) stated that they had comprehension the implementation of the AML and CFT program; and 4. Most of the FinTech P2PL providers (60%) state that they do not have a special work unit responsible for implementing the AML and CFT program.
Pillar of Policies and Procedures	<ol style="list-style-type: none"> 1. Most FinTech P2PL providers (55%) state that there are policies and procedures regarding the application of the AML and CFT programs in their companies; 2. Most of the FinTech P2PL providers (90%) state that there are policies and procedures regarding CDD for Users; and 3. Most FinTech P2PL providers (60%) state that they can find out the source of funds lent (lenders) through the platform.
Pillar of the Internal Control System	Most of the FinTech P2T providers (60%) stated that there was no internal audit work unit that functioned to audit the implementation of the AML and CFT programs.
Management Information System Pillar	<ol style="list-style-type: none"> 1. Most of the FinTech P2PL providers (65%) stated that they did not have a system to detect indications of possible ML and TF; 2. Most of the FinTech P2PL providers (80%) state that the system they have is unable to classify users based on potential ML and TF threats; and 3. Some FinTech P2PL providers (50%) state that the system they have is able to identify users who fall into



OVERVIEW	MAPPING RESULT
	the PEP category. While some other FinTech P2PL Providers (50%) state that the system they have is unable to identify users who fall into the PEP category.
Pillar of Human Resources and Training	Most of the FinTech P2PL providers (85%) stated that they already have an AML and CFT implementation program on a periodic basis.

2. In addition to mapping the aspects of vulnerability, ML and TF risk mapping has also been obtained based on the following aspects of threats and Consequences:

ASPECT	MAPPING RESULT
Threat	<ol style="list-style-type: none"> 1. Corporations are FinTech P2PL user entity types that have the highest ML and TF threat level based on the type of entity; 2. For the type of individual user, men are the highest threat level ML and TF based on gender; and 3. For the type of individual user, users with an age range of 19-34 years being the highest threat level ML and TF based on the age range; and 4. DKI Jakarta, West Java, East Java, Central Java, and Banten are the regions with the highest ML and TF threats based on geographic area.
Consequence	<ol style="list-style-type: none"> 1. Loan Range Rp1,000,000 - Rp10,000,000, - is the highest loan range for ML and TF threats; 2. The purpose of the loan for productive purposes is the highest level of threat of ML and TF, and 3. Central Java, DKI Jakarta, West Java, East Java, and Banten are the provinces or regions with the highest level of AML and CFT threats.

5.2. Recommendation

Through this study, recommendations can be submitted as follows:

1. The need for socialization to FinTech P2PL providers regarding the vulnerability of FinTech P2PL providers to ML and TF; and
2. The need for the further regulation regarding the application of AML and CFT programs for FinTech P2PL providers in the form of a Financial Services Authority Circular Letter (SEOJK) governing more technical matters for the application of AML and CFT programs for FinTech providers.

HALAMAN INI SENGAJA DIKOSONGKAN