

ANALYSIS OF COLLABORATION BETWEEN RURAL BANKS AND FINTECH LENDING

Hot Asi, Kurnadi Gularso

Universitas Bunda Mulia, Indonesia

Email: hotasi@yahoo.com, kurnadi.gularso@binus.ac.id

KEYWORDS

collaboration, fintech
lending, rural bank

ABSTRACT

Fintech Lending or Information Technology-Based Joint Funding Services (LPBBTI) is a form of technological innovation in financial services that provides new alternatives for people to get access to loans in an easy and fast way. Fintech lending provides loans to individuals and businessmen who previously had difficulty obtaining loans from traditional financial institutions. The fintech lending industry enters the same market as banking to serve the community so that they can compete or collaborate with each other. Fintech lending and banks have their own characteristics and advantages so they have the potential to provide added value and reduce risk. The aim of this research is to analyze whether collaboration between Rural Banks (BPR) and fintech lending can be mutually beneficial and an optimal form of collaboration. This research was conducted from a case study of PT Duha Madani Syariah as a fintech lending provider in collaboration with 4 (four) BPRs. The research method used a qualitative approach. Data collected through observation, interviews, documentation, and triangulation techniques. The research results show that the collaboration between BPR and fintech lending is mutually beneficial for the parties because it increases loan disbursement, creates company operational efficiency, and increases company profits. This collaboration is outlined in a cooperation agreement which regulates the scope of mutually beneficial cooperation, and requires support from regulators through policies or implementing instructions to accelerate and improve collaboration between BPR and fintech lending.

Attribution-ShareAlike 4.0 International (CC BY-SA 4.0)



1. Introduction

The presence of finance technology (fintech) in Indonesia has helped people to get financial solutions easily and quickly. The types of fintech in Indonesia include Digital Payment System, Peer to Peer Lending (P2P Lending), Crowdfunding, Market Comparison, and Microfinancing. P2P Lending or also called fintech lending provides services to users to gain access to loans through a platform using information technology. The emergence of fintech lending platforms began with the financial crisis in 2008 where it was possible for individuals and small businesses to borrow money without going through traditional financial institutions (Tang, 2019).

In the fintech lending business model, there are three parties that play an active role, namely Lenders (Fund Owners), fintech lending platforms, and Fund Recipients (Borrowers). Lenders can benefit from interest rates or fees set on loans disbursed to Fund Recipients. Fintech lending platform operators benefit from fees as intermediaries paid by Fund Recipients and Lenders. Fund recipients can utilize the loan funds they receive for various needs, ranging from daily needs, purchases of goods and services, and working capital needs to support their business activities (Fatoni, 2022).

Since being approved by the Financial Services Authority (OJK) in 2016, fintech lending continues to experience growth from year to year. Growth includes the number of users and the value of loans disbursed. Lending through fintech lending has gained faster loan market share, especially in developing countries, as developing countries have lower penetration of financial products due to banking limitations and geographical challenges (Kohardinata et al., 2020).

The high growth rate of fintech lending is caused by the convenience provided to users who can access financial services in one hand of a smartphone or laptop (Firmansyah, 2020). Fintech lending is able to encourage an increase in transactions both related to lending and borrowing, buying and selling transactions of goods or services, and payments to be more effective, efficient and economical. The fintech lending industry has a positive and significant influence on Indonesia's economic growth (Wajuba et al., 2021).

Figure 1 below illustrates the growth of loans in fintech lending which continues to increase from year to year. In 2022, fintech lending reached Rp. 243 trillion, an increase of 90% compared to the previous year.

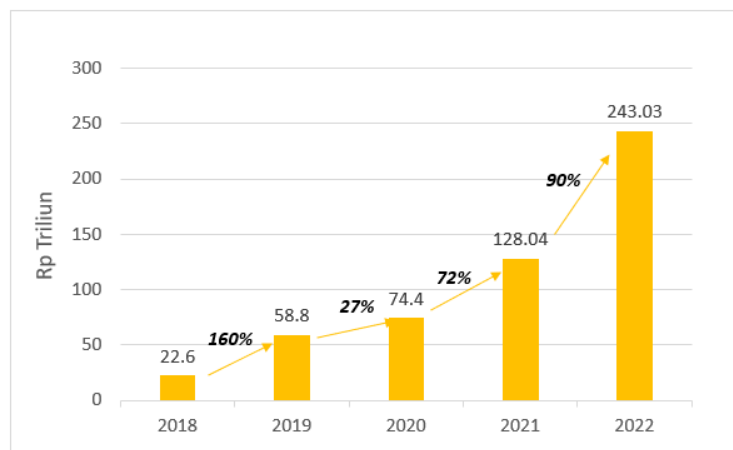


Figure 1 Growth of lendin fintech lending
Source: Financial Services Authority (2023)

The fintech lending industry is considered capable of increasing financial literacy and inclusion in the country. Through information technology and the internet, fintech lending services can reach almost all regions in Indonesia (Marginingsih, 2021). Fintech lending services have advantages compared to general financial service providers such as banks and multi-finance because they are able to provide services to people who do not have bank accounts and to people who already have bank accounts but do not have access to loans at banks or multi-finance (Earnings, 2021).

Indonesia as one of the countries with the most use of smartphones and the internet (Mauline, 2022) is an indication that Indonesian people are fast in adapting to information technology that encourages the use of fintech lending services. With information technology, the process in fintech lending services can be completed quickly in minutes anywhere and anytime, far superior to other traditional financial service providers (Lova, 2021).

Fintech companies consistently innovate in developing appropriate products and services for the community. Providing technology in digital applications that are user friendly is a driving factor for accelerating the adoption of financial technology in Indonesia. This can increase financial access and inclusivity to achieve Indonesia's national financial inclusion target of 90% by 2024 (Nugraha et al., 2022).

The presence of fintech lending can be a challenge and opportunity for the banking industry in the country. If not anticipated, the development of fintech lending can be a threat that can replace the role of banking (Fatoni, 2022). Although currently many banks are starting to develop technology for their financial services, on the other hand, there are also many companies in Indonesia that are not part of the bank but have financial services using technology that can be accessed by the public (Jin et al., 2022).

Figure 1 below shows the number of rural banks over the past five years experiencing a downward trend. As of December 31, 2022, there were 1,608 rural banks, a decrease of 8.8% compared to 1,764 banks in 2018. The main contributing factor to the consistent reduction in the number of rural banks is bankruptcy caused by corporate governance errors. Another factor is due to the merger of several rural banks (Aprilia, 2023).

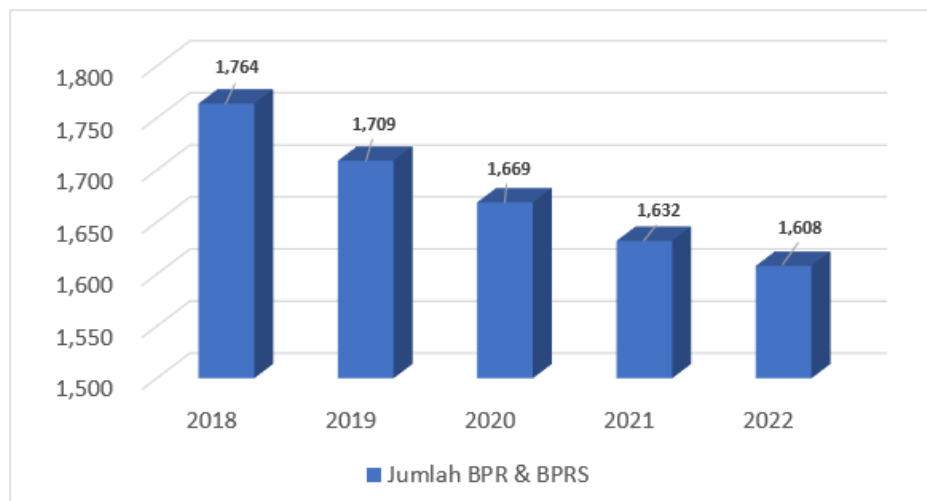


Figure 2 Number of BPR and BPRS

Source: Financial Services Authority

OJK, which has a role in regulating and supervising financial service institutions in the banking sector, capital market sector, and non-banking financial sector (IKNB), continues to strengthen the financial services sector and follow technological developments. The growth of fintech lending and changes in public behavior towards fast and better financial services, OJK encourages collaboration and cooperation between financial service providers, including between fintech lending and rural banks (BPR). Fintech lending collaboration and cooperation with rural banks can increase the adaptation of information technology and digitalization for the future development of rural banks (Anggraeni, 2019).

In terms of fintech lending, collaboration with BPR can accelerate funding in potential areas. As a form of follow-up, in 2021 OJK issued guidelines for cooperation between rural banks (conventional and sharia) and fintech lending so that there are clear bases and steps in carrying out cooperation between organizers. Through this cooperation, it can provide added value for each organizer. The widespread use of digital financial services will increase user participation in loans (Yue et al., 2022). When this research was made, bank liquidity was abundant, which had the potential to encourage credit growth through various loan products and forms of distribution (Yogatama, 2023).

(Atmoko, 2021) fintech lending in Indonesia as shown in Figure 1.3 below experienced its peak in 2019 as many as 164 organizers consisting of 2 (two) categories, namely conventional and sharia fintech lending. Loans distributed to Borrowers for consumptive needs (multipurpose loans) and working capital (productive loans). However, by the end of 2022, the number of fintech lending organizers had shrunk to 102 companies. The decrease in the number of fintech lending providers is caused by some companies not being able to meet the licensing requirements from the OJK and the implementation of a moratorium by the OJK for the registration of prospective new organizers because the OJK is revamping and strengthening the fintech lending industry (Atmoko, 2021).

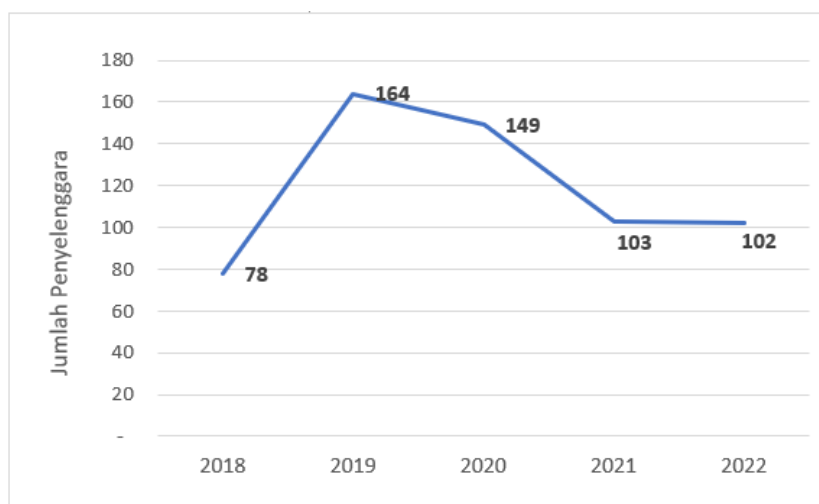


Figure 3 Number of fintech lending organizers

Source: Financial Services Authority (2023)

The threat of new entrants, supplier power, purchasing power, substitute products, and the level of competition between competing firms are some of the elements that according to Michael A. Hitt's (2017) claim shape the industry environment and have a direct impact on how a firm behaves and responds to competition. In the same way that banks offer savings and loan

products to the general public, fintech lending also offers funding and loans to the same public. Part of the banking market share is taken by fintech lending, which is part of the financial services sector. With financial technology innovation, competition in financial markets is becoming increasingly fierce (Navaretti et al., 2017). Financial technology offers convenience and speed for users in accessing financial services. People are faced with a variety of financial services that can be easily moved from one service to another.

One form of strengthening the fintech lending industry carried out by OJK is by revoking regulation Number 76 of 2016 and replacing it with new regulation Number 10 of 2022. One of the articles in this new regulation is a limitation on the amount of funds that can be distributed by non-financial service institution lenders. The maximum amount of funds that may be disbursed by non-financial service institution Lenders is a maximum of 25% of the total current loans disbursed by fintech lending providers. Meanwhile, financial service institutions can disburse loans up to a maximum of 75%. The OJK regulation certainly encourages fintech lending providers to cooperate with financial service institutions as parties that provide loans, one of which is BPR.

The Association of Rural Banks (PERBARINDO) has taken strategic steps through a collaboration agreement with the Indonesian Joint Funding Fintech Association (AFPI) to expand loan access, increase funding capacity, and improve the welfare of the community and MSME actors (AFPI, 2022). But the initial effects of this collaboration were only felt at the association level. It takes time to implement it directly and simultaneously at the bank level (Kohardinata, 2020).

One of the fintech lending providers that already has a business license from OJK is PT Duha Madani Syariah (Duha Syariah) has collaborated with several rural banks. Researchers intend to conduct research on whether the collaboration between BPR and fintech lending can provide benefits to each party through research on case studies in Duha Syariah. Through this research, it is expected to provide input for rural banks and fintech lending providers in determining optimal collaboration strategies to achieve sustainable business growth.

2. Materials and Methods

This type of research is by qualitative method. Sugiyono (2018) explained that qualitative research is a research method based on the philosophy of postpositivism or interpretive, which is an approach that focuses on objective observation involving interpretation or interpretation. Researchers as key instruments, then data collection techniques are carried out triangulated (combined), data analysis is inductive / qualitative, and in the final results qualitative research tends to emphasize meaning rather than generalization.

According to Creswell (2014), qualitative research is a method to research and understand the importance of the attributes of individuals or groups of different people to social or humanitarian problems. This qualitative research process requires important efforts such as asking questions and procedures, collecting specific data from participants, inductively analyzing data from specific themes to general themes, and interpreting the meaning of the data. The final report of qualitative research has a flexible structure or framework.

This research uses qualitative methods with a case study approach. Creswell (2014) explains that research in case studies must be carried out carefully on a program, event, activity, process, or group of individuals which is limited by time, and activity

3. Result and Discussion

Cooperation Agreement Scheme (PKS)

A letter of cooperation agreement is made so that the parties involved in a cooperation activity agree on the scope of cooperation and are binding and guarantee the parties in carrying out obligations and obtaining their rights. Through the observation of researchers where information was obtained in the preparation of the cooperation agreement between PT Duha Madani Syariah (Duha Syariah) and BPR took a long time. This is because fintech lending products are not well known by BPR so it takes time to learn the business model and product characteristics first. In addition, both parties are under the supervision of OJK so they must comply with regulations in accordance with their respective business models. The differences in regulations used result in each party needing time to harmonize views so that cooperation can run without having to violate regulations. Then, if there are parties who carry out their business activities in accordance with sharia principles, then the cooperation scheme and cooperated products must comply with the provisions of the DSN-MUI fatwa. These things may affect the speed of completing the cooperation agreement.

Regarding the scope of cooperation, based on the cooperation guidelines issued by OJK, there are two cooperation schemes, namely channeling and referral. In the channeling scheme, there are differences in views between rural banks and fintech lending, where rural banks want the disbursement of loan funds to be carried out directly from rural banks to fund recipients. Payment with this scheme is not in accordance with the fintech lending business model which has the main function as an intermediary. Then in the referral scheme, BPR is still considering this scheme because it is a new scheme and BPR expects more role than fintech lending or not just letting go. The agreed cooperation between BPR and Duha Syariah is through a channeling scheme.

For the rights and responsibilities of each party, there are differences in views between BPR and fintech lending providers regarding the disclosure of identity information from Fund Recipients. Duha Syariah as the organizer of fintech lending refers to OJK regulation Number 10/POJK.05/2022 where article 31 paragraph 4 states that access to information provided to Lenders (BPR) does not include information related to the identity of the Fund Recipient, while BPR wants complete information about the identity of the Fund Recipient because it must conduct analysis and recording in the BPR's internal books. In the negotiation process, it was finally agreed that the identity of the Fund Recipient was given to BPR.

The implementation of cooperation between BPR and fintech lending does not need to integrate the system. Duha Syariah already has a system or application that can be directly used by BPR starting from registering, offering funding, signing agreements, to the process of disbursing funds and refunds. This will make the end-to-end process of cooperation more practical and faster. For rural banks that generally have not adapted technology, cooperation with Duha Syariah will create efficiency in terms of BPR operations because it can be done by only one or two employees in the workspace. As for Duha Syariah, this is indeed its business model which provides financial solutions to users using information technology.

Related to Standard Operational Procedures (SOPs), each party must prepare SOPs in accordance with the agreement on the scope of cooperation. SOP is one of the important elements required by regulators in this case is OJK. In the process of collaborating with BPR, Duha Syariah has experience that BPR has challenges in preparing SOPs because cooperation products with fintech lending are relatively new to BPR. This has an impact on the time needed in preparation for cooperation to be longer. In addition, if the SOP made is incomplete, OJK will return or reject the cooperation permit application submitted by BPR.

Researchers found different views on the Service Level Agreement (SLA), especially in the form of how long it takes to complete the loan approval process to the disbursement of loan funds. The advantages of the business model in fintech lending compared to traditional financial services are ease and speed. The need for funds from borrowers who are customers of Duha Syariah varies greatly, some need loan funds as soon as possible but some can wait. In Duha Syariah financing products, the loan disbursement process to the Fund Recipient is set between 2 - 7 working days since the loan application documents are received completely by Duha Syariah. In negotiating the cooperation process, Duha Syariah proposed an SLA with 2 working days. This is a challenge for BPR to be able to process loan applications faster than non-cooperation loans with fintech lending.

Based on interviews with BPRS in Purbalingga and BPRS in Garut regarding another form of cooperation that has the potential to be followed up is the white-label scheme. Duha Syariah acts as a partner that provides technology infrastructure related to loan services, while BPR uses its own brand and identity (white-label) in offering these products to its customers. Through this scheme, BPR can adopt technology quickly and without having to invest in technology that requires a lot of money.

Loan Scheme

The characteristics of lending through fintech lending are flexibility, ease, and speed. Fintech lending providers can disburse loans for the short term starting in daily, monthly, and long-term in years. Fund recipients are also flexible to make accelerated loan repayments at any time. The loan products offered by fintech lending vary greatly, such as loans for the needs of purchasing multi-goods, multi-services, and working capital for productive activities.

Researchers obtained information from Duha Syariah that in cooperation with rural banks, in general, rural banks prefer short-term loans because they have to maintain a cash ratio, namely the ability of banks to fulfill obligations that must be paid immediately with liquid assets owned by banks. The loan agreed in the cooperation agreement is a maximum tenor of 6 months, but in the realization of loan disbursement most have a period of between 2 - 4 months.

Through a researcher interview with the president director of one of the BPRS domiciled in Garut, he said:

"For fintech, we are indeed to maintain cash, actually, sir, so we don't put in financing with a long turnover, but a fast one, it's not that long. So if there is funding from ya kira kira is still spinning fast, that's yes we put it into fintech. This fintech is why we are now looking for three months and below, sir, a maximum of three months" (Interview, July 27, 2023).

Meanwhile, based on information from BPRS domiciled in Purbalingga, according to the president director that loans that are flexible in repayment (repayment can be accelerated) must be treated specifically so that the cost of guarantee premiums can be adjusted. Insurance premium costs are calculated annually while income received by banks is calculated prorata according to the loan tenor. If the loan tenor is shorter, the income will be small, but the cost of insurance premiums remains in the calculation of a year's tenor. Loans whose repayment is accelerated are certainly better because there is no risk anymore.

The loan scheme that is collaborated between BPR and Duha Syariah is invoice financing. The Invoice Financing product is a working capital loan to business actors who use bills to their clients (Payor) as the underlying loan. In this scheme, the work on the provision of goods or services has been completed by the Provider of goods / services, but is still waiting for payment from the client (Payor) according to the transaction agreement which generally has varying terms of payment, some are weekly and up to monthly.

According to Duha Syariah, the invoice financing scheme has a more measurable risk because the work on the provision of goods or services has been completed by the Fund

Beneficiary. Unlike the project financing scheme where prospective beneficiaries need a working capital loan to work on the project. In this case there is a greater potential risk when the project is not completed for some reason, or the project is not in accordance with the contract of the client so that the client does not want to pay for the project or work.

Based on the results of the researcher's interview with the Head of the Marketing Division of BPR who is domiciled in Tasikmalaya, the bank is currently reducing loans with invoice financing schemes because there are a number of bad loans through other fintech lending providers. However, for the loan disbursement of the invoice financing scheme through Duha Syariah, it runs smoothly and becomes a priority choice for banks. Meanwhile, according to the Head of the IT and Accounting Division of the bank, the bank has collaborated with 12 fintech lending organizers. Invoice financing schemes are considered as loan schemes that are more measured in terms of risk, but the risk of default or default is still possible. When this research was made, the BPR, which is domiciled in Tasikmalaya, prioritized the distribution of small and safer loans.

Loan Risk Mitigation

In general, lending through fintech lending does not use fixed asset guarantees from the Fund Recipient because this is the uniqueness of the fintech lending business model that provides speed and ease of loan applications. This is contrary to risk mitigation carried out by rural banks which generally ask for fixed asset guarantees from Fund Recipients. Fixed asset guarantees can be in the form of certificates of title to property, vehicles, and others. This condition is a concern for BPR because it does not hold assets to replace or cover the obligations of the Fund Recipient in the event of default, moreover loans through fintech lending can reach up to Rp 2 billion according to the maximum lending limit set in OJK regulations.

Based on the observations of the Researcher, information was obtained that Duha Syariah understands the characteristics of the fintech lending business model that is different from banks so that in selecting Fund Recipients, Duha Syariah applies the precautionary principle (conservative) and the target of Fund Recipients is still limited open (close loop)) according to references or recommendations from reliable parties. Then in lieu of fixed asset guarantees, the Fund Recipient is required to submit guarantees in the form of backward checks, notarized Personal Guarantee or Corporate Guarantee, and joint accounts for the Recipient's bank account (view access or full access). However, according to BPR, this guarantee is not safe enough as a risk mitigation, so other efforts are needed that can convince BPR.

In the process of negotiating cooperation, Duha Syariah offers BPR to make a visit to the location of prospective Fund Recipients before the loan is granted. The goal is that BPR can meet directly with the Fund Recipient and know in real terms the business conditions. Through this visit, BPR can dig up in-depth information directly from the company's management, so as to provide confidence for BPR in making decisions to approve or reject loan applications from prospective beneficiaries. This is welcomed positively by BPR even though the distance between the location of the BPR and the recipient of funds is quite far.

In a researcher interview with the Head of Product Development of one of the BPRS domiciled in Bandung, he revealed:

"But I like to be invited to meet customers and introduced openly, meaning we know oh this is the customer, what else for my referrals need it, sir. So yes, the evaluation from Duha we believe, but when we look again at the customer so this is the strong point, sir. Yesterday I felt that the plus point when I met Duha's customer, because we needed to double check the pack so by meeting the customer it was fulfilled." (Interview, July 28, 2023)

The same thing was also expressed by BPRS from Purbalingga according to the Researcher's interview with the president director who suggested making a schedule of periodic visits to the Recipient's office to obtain the latest information about the business activities of the Fund Recipient and loan needs for the future.

According to the researcher's interview with the Head of the Marketing Division of BPR who is domiciled in Tasikmalaya, the bank experienced a number of bad loans in several fintech lending providers and did not have fixed asset guarantees. As a result, the bank reduced lending through cooperation with fintech lending. The absence of fixed asset guarantees from Fund Recipients is a challenge in BPR's cooperation with fintech lending.

In addition to the absence of fixed asset guarantees, researchers obtained information from Duha Syariah that there is no credit insurance or guarantee that is willing to guarantee default losses on Recipients' loans through fintech lending. This is related to the high level of risk for loans through fintech lending so that the insurance is reluctant to provide protection or guarantees. Insurance companies view that the e-KYC (know your customer) process or the process of recognizing and analyzing the ability to pay the recipient of funds has not been carried out in depth. This insurance problem is a major issue for the fintech lending industry and has been known by regulators but until this research was made there was no solution.

At the time of this study, the only insurance scheme available was Administration System Only (ASO) where the insurer only acted as an administrator. In this scheme, there is no risk transfer because insurance claims will be paid by the insurance according to the amount of premium balance belonging to the fintech lending provider paid to the insurance company. If the premium balance of the fintech lending provider is smaller than the value of the loss from the defaulted loan, risk mitigation is not achieved. Based on information obtained from Duha Syariah that Duha Syariah has collaborated with Takaful Syariah Insurance with the ASO scheme.

According to the results of the interview with the informant from BPRS domiciled in Purbalingga, BPRS has insurance partners who are willing to guarantee loans through fintech lending so that risk mitigation for loan losses on the part of BPR can work. However, the premium rates charged by the insurance for loans through fintech lending are quite large so that they reduce BPRS income.

Support From Regulators

BPR and fintech lending are included in the financial services industry under the supervision of the Financial Services Authority (OJK). BPR is under the supervision of the Banking Supervisory Division, while fintech lending is under the supervision of the Non-Bank Financial Supervisory Division. Duha Syariah already has a business license from OJK in carrying out its business activities and is encouraged to collaborate with other financial service providers so that in collaborating with BPR, Duha Syariah can directly carry it out without having to apply for a license first from the regulator. Unlike the case with BPR which is required to obtain permission first from OJK to carry out cooperation with fintech lending.

Based on the results of the researcher's observation of Duha Syariah, the process of cooperation with several rural banks has stalled because rural banks have not received the blessing of the OJK to cooperate with fintech lending. The facts in the field found that OJK policies in several Regional Offices (working areas) differ in following up BPR cooperation with fintech lending. OJK Regional Offices in Jabodetabek and West Java facilitate the synergy of BPR and fintech lending. The local OJK provides direction and discussion to the parties involved in the cooperation, as well as giving permission to BPR to pilot cooperation with fintech lending. In contrast to OJK, Regional Offices in Yogyakarta and Central Java regions have not granted cooperation permits to BPR, so synergy with fintech lending has been delayed.

According to information obtained by researchers from the focus group discussion (FGD) meeting with OJK from the Directorate of Sharia Banking Development that OJK is currently paying special attention to encouraging BPRS cooperation with fintech lending through the preparation of Guidelines for BPRS Cooperation and LPBBTI Syariah Organizers (Fintech Lending)). During the meeting, Duha Syariah conveyed the obstacles experienced when cooperating with BPRS where some BPRS have not received permission from OJK to cooperate with fintech lending.

In terms of fintech lending organizers, the support provided by OJK is in the form of supervision of the realization of loan disbursement transactions through the submission of periodic transaction reports through the OJK SILARAS system. OJK also issued a new fintech lending regulation replacing the old regulation, namely Number 10/POJK.05/2022 which in Article 26 provides more optimal space for financial service businesses to disburse loans up to 75% of outstanding loans. Meanwhile, for parties who are not financial service business actors, the maximum limit of funds that can be distributed to borrowers is 25% of the outstanding loan.

Based on the results of an interview with the Head of Product Development of one of the BPRS located in Bandung, the form of support from OJK to banks is in the form of direction, input, and supervision of cooperation with fintech lending.

"Yes, when we last inspected with the OJK, they agreed with what we did, did not open big first, but we remained gradual while doing evaluations." (Interview, July 28, 2023)

When researchers conducted separate interviews with the president director of the BPRS located in Garut and the BPRS located in Purbalingga, the same information was obtained that the form of support from the OJK so far is to supervise the bank's cooperation with fintech lending that has been running. OJK supports the bank to synergize with fintech lending but provides a limit on financing so that risk is limited.

Impact on Company Operations

As is known, the fintech lending business model uses technology through the internet in its business activities so that fintech lending cooperation with strategic partners should be done by one or several people in daily implementation. Based on the researchers' observations that in coordinating and implementing daily cooperation, the Duha Syariah team consists of 3 (three) employees who are directly related to BPR. Work coordination includes submitting new customer approvals, submitting approval for financing applications, implementing disbursement of funds, to returning overdue funds to BPR. To facilitate coordination, Duha Syariah prepares communication facilities through whatsapp group channels for each BPR.

According to the president director of BPRS located in Purbalingga, BPR's cooperation with fintech lending provides challenges for the marketing division of non-fintech loan products because loan distribution through cooperation with fintech lending continues to increase with an easy and fast process. Marketing teams that use old and traditional methods are encouraged to be more creative and innovative in finding customers so that loan distribution can be increased. Based on the results of researchers' observations on Duha Syariah, that in the June 2023 period, the amount of loans disbursed by this bank to Fund Recipients through Duha Syariah reached IDR 15 billion with a total of 27 loan documents. The representative of this bank who handles cooperation with all fintech lending (not only cooperation with Duha Syariah but with other fintech lending) consists of 3 employees.

Duha Syariah's collaboration with BPRS domiciled in Bandung, in the June 2023 period, has distributed loans to Fund Recipients of IDR 14 billion with a total of 15 loan documents. The BPRS team that handles cooperation with all fintech lending consists of 2 employees. The Duha Syariah system used by BPRS can be operated via smartphone so that employees

responsible for implementing this cooperation can perform their duties whenever and wherever they are.

From the observations of researchers on Duha Syariah related to its cooperation with BPRS located in Garut, the representative of the bank appointed to handle cooperation with Duha Syariah is only 1 employee. In June 2023, the bank disbursed loans to Fund Recipients through Duha Syariah amounting to IDR 1.4 billion with a total of 5 loan application documents.

The Impact of Collaboration on Company Profits

According to the results of the researcher's observation of Duha Syariah, cooperation with BPR has an impact on increasing the number of loans distributed to Fund Recipients. As a fintech lending provider, Duha Syariah's performance is strongly supported by collaboration with funders, both from institutions and individuals. The more Lending partners, the greater the opportunity for fintech lending providers to distribute loans to Fund Recipients. The total loans disbursed by BPR to Fund Recipients through Duha Syariah throughout 2022 reached 67% of the total loans in Duha Syariah. Meanwhile, in the June 2023 period, it will increase to 88% of total loans in Duha Syariah. The total loans disbursed by Duha Syariah in 2021 amounted to IDR 60 billion, while in 2022 it was IDR 187 billion, an increase of 211% compared to the previous year. In the period from January to June 2023, the total loans disbursed by Duha Syariah reached IDR 242 billion. This increase was driven by the increase in the number of new rural banks cooperating with Duha Syariah and the increase in the ceiling on loan facilities provided by rural banks to Duha Syariah.

When viewed from profitability, in 2021 and 2022 Duha Syariah still posted losses of IDR 2.5 billion and IDR 1.9 billion. In 2022, the company's loss rate decreased due to an increase in fee receipts as a result of an increase in loans disbursed. However, as of June 30, 2023, Duha Syariah managed to record a profit of IDR 257 million due to an increase in revenue from fund disbursement as a result of a significant increase in loan disbursement.

Table 1 Financial Performance of Duha Syariah

PERIOD	TWO				
	NET PROFIT	PEOPLE	BOPO	ROE	DISTRIBUTION
	Rp.				Rp.
Jun-23	0,3 M	8,92%	88,29%	9,10%	242 M
2022	-1,9 M	-200.62%	280.30%	-283.18%	188 M
2021	-2,5 M	-277.27%	710.14%	-405.50%	60 M

Source: Processed by Researchers (2023)

Based on the results of observations and interviews of researchers with the president director of BPRS located in Purbalingga, he revealed that collaboration with Duha Syariah contributed to his company's profit. In 2022, the company earned revenue from the distribution of funds of IDR 27.3 billion, an increase of 16.7% compared to 2021 of IDR 23.4 billion. The company posted a 2022 net profit of IDR 5.4 billion, an increase of 22.8% compared to the previous year of IDR 4.4 billion. If the bank's health level is measured through the financial ratio of Return on Assets (ROA) and Operating Expenses to Operating Income (BOPO), the bank's performance in 2022 is very good. The ROA ratio of 2.97% and BOPO of 65.51% are ranked 1.

According to the results of observations and interviews of researchers with the president director of BPRS based in Garut, he said that collaboration with Duha Syariah provides benefits for the company. The bank's collaboration with Duha Syariah began in November 2022 so that the financial performance observed by researchers is taken from 2023 data. The Company's performance until June 2023 managed to obtain revenue from the

distribution of funds of IDR 5.4 billion, an increase of 35% compared to the same period the previous year of IDR 4 billion. The company recorded a net profit as of June 30, 2023 of IDR 1.1 billion, an increase of 306% compared to the same period the previous year of IDR 271 million. If the bank's health level is measured through the financial ratio of Return on Assets (ROA) and Operating Expenses to Operating Income (BOPO), the bank's performance as of June 30, 2023 is categorized as quite good. The ROA ratio of 1.72% is ranked 2nd, while the BOPO ratio of 77.43% is ranked 1st.

According to the results of observations and interviews with the Head of the Marketing Division of BPR located in Tasikmalaya, he revealed that the collaboration with Duha Syariah had an impact on the company's profits. The bank's collaboration with Duha Syariah began in October 2022 so that the financial performance observed by researchers is taken from 2023 data. As of June 2023, the company posted operating income from interest and provision of IDR 29.2 billion, an increase of 6.2% compared to the same period the previous year of IDR 27.5 billion. The company recorded a net profit as of June 30, 2023 of IDR 2.7 billion, an increase of 28% compared to the same period the previous year of IDR 2.1 billion. The bank's health level as measured through the financial ratio of Return on Assets (ROA) and Operating Expenses to Operating Income (BOPO), the company's performance as of June 30, 2023 is in the pretty good category where the ROA ratio of 2.68% is ranked 1 while the BOPO ratio of 88.55% is ranked 2nd.

The Head of Product Development of BPRS based in Bandung in his interview with researchers said that cooperation with fintech lending has an impact on profits for banks even though the contribution is still small. The bank hopes that the percentage of profit sharing can be reviewed to be raised. The bank's health level as measured through the financial ratio of Return on Assets (ROA) and Operating Expenses to Operating Income (BOPO), and Net Rewards, the company's performance as of June 30, 2023 is in the pretty good category where the ROA ratio of 2.68% is ranked 1st, the BOPO ratio of 88.55% is ranked 2nd, while the Net Rewards ratio of 7.75% is ranked 3rd.

Table 2 Net Profit of BPR in collaboration with Duha Syariah

PERIOD	BPRS is located in Bandung	BPRS is located in Purbalingga	BPRS is located in Garut	BPRS is located in Tasikmalaya
Jun-23	4,1 M	3,35 M	1,11 M	2,7 M
2022	18,92 M	5,43 M	1,02 M	8,5 M
2021	15,28 M	4,42 M	0,01 M	7,7 M

Source: Processed by Researchers (2023)

Discussion of Research Results

In this section, researchers explain and analyze research findings in depth and relate the findings to relevant theories. The researcher presents the above interpretation of the findings and explains the implications of the findings on the research topic. Researchers use the Triangulation method to check research results with different data collection techniques, namely observation, interviews, and documentation so that valid information is obtained.

Cooperation Agreement (PKS)

The preparation of a cooperation agreement between BPR and Duha Syariah takes a long time because it is caused by several factors, namely: the fintech lending business model is new to BPR so it takes time to learn about it and regulatory differences due to industry differences between BPR and fintech lending; there are different views regarding channeling schemes, customer information disclosure; and BPR needs to adapt the process flow of the fintech lending business model related to service level agreements

Information disclosure about customers is needed so that rural banks are sharper in analyzing loan approvals as well as part of risk mitigation (Interview with the Head of Product Development of one of the BPRS located in Bandung, July 28, 2023).

OJK regulations related to customer information whose treatment adjusts to each industry between BPR and fintech lending.

OJK Regulation No.13/pojk.03/2015 concerning the application of risk management for rural banks, where rural banks must conduct an in-depth analysis of prospective debtors (Chapter II.C.2)

OJK Regulation No. 10/POJK.05/2022

About Information Technology-Based Joint Funding Services, where fintech lending providers are not required to provide access to Recipient information regarding to Funders (Article 25 paragraph 2)

Document of cooperation agreement between BPR and Duha Syariah.

There are differences in views between BPR and Duha Syariah such as related to payment schemes to Fund Recipients, information disclosure to customers, speed of service (service level agreement), so there needs to be negotiations and discussions between parties to reach a cooperation agreement

Loan Scheme

Loans that run between BPR and Duha Syariah are short-term tenor loans (less than 6 months), and loan schemes with more measurable risks, namely invoice financing,

The target beneficiary of funds is close loop according to references / recommendations from trusted parties, so that the selection process for recipients of funds is more stringent and careful.

According to informants from one of the BPRS located in Bandung, Garut, and one of the rural banks in Tasikmalaya, the suitable loan tenor is short-term because BPR must maintain liquidity if at any time depositors withdraw funds.

A suitable loan scheme with a more measurable level of risk is invoice financing. However, according to one of the rural banks located in Tasikmalaya, the invoice financing scheme is being reduced because there are several loans through other fintech lending that are problematic (stuck), except with Duha Syariah

Document of cooperation agreement between BPR and Duha Syariah

BPR needs to maintain liquidity to anticipate the withdrawal of funds by depositors / depositors at any time. For this reason, the suitable loan tenor is short-term, less than 6 months.

The loan scheme that is cooperated is invoice financing because it has a measurable level of risk. Loans through Duha Syariah do not have fixed asset guarantees.

Risk Mitigation

Loan disbursement through Duha Syariah does not use fixed asset guarantees, and there is no loss insurance that wants to guarantee credit risk, so there needs to be a strengthening of risk mitigation through non-fixed asset guarantees such as Personal Guarantee, Corporate Guarantee, Checks/Giro withdrawals, and provide access to rural banks to meet directly with prospective Fund Recipients for in-depth analysis

The results of the interview with one of the BPRS located in Bandung and Purbalingga, that access to be able to meet directly with Fund Recipients is needed to conduct an in-depth assessment related to the profile of Fund Recipients. The bank requires regular visits.

Regarding insurance, one of the BPRS located in Purbalingga guarantees loan risks through its insurance partners. Meanwhile, other rural banks follow insurance with the ASO scheme in the Duha Syariah service where risk protection is very dependent on the amount of premium balance collected.

Document of cooperation agreement between BPR and Duha Syariah

Amplification of credit risk mitigation such as non-fixed asset guarantees such as Personal Guarantee or Corporate Guarantee, Backward Cheque/Giro, and access to BPR to assess (meet) directly with prospective Fund Recipients.

Regarding guarantee insurance, BPR can guarantee financing risks through flow partners who have collaborated with BPR. For premium costs on loans distributed, it can be borne jointly with the parties according to the cooperation agreement

Support from Regulators

Several OJK Regional Offices have different policies or considerations in responding to BPR collaboration with fintech lending. As a result, the application for cooperation permits submitted by BPR was delayed in several regions.

OJK support for rural banks and fintech lending that have collaborated through supervision according to their respective industries.

Based on an interview with one of the BPRS located in Bandung, Purbalingga, and Garut, the form of support from the regulator is in terms of conducting supervision and providing direction in anticipating risks that can occur, especially related to bad loans or default.

The characteristics of loans through fintech lending are different from BPR, so the level of risk is different. OJK responds to BPR's cooperation with fintech lending carefully and thoughtfully. The impact occurred on applications for cooperation permits from several rural banks that had not been approved by the OJK. OJK support for rural banks and fintech lending that has been running through a form of supervision like other financial service providers.

Impact on company operations

The implementation of cooperation between BPR and Duha Syariah uses information technology so that it can be done by a few people, with an easy and fast process

According to one of the BPRS located in Purbalingga, cooperation with Duha Syariah will encourage the marketing division for non-cooperation fintech lending loans to be more productive and creative because loan distribution through fintech lending continues to increase and can be done by a few employees.

BPR's collaboration with Duha Syariah adapts information technology so that the implementation of cooperation, which starts from the customer approval process, loan application and approval, and loan disbursement can be done easily and quickly, and can be done by a few employees

Impact on the Company's profitability

The collaboration with BPR has succeeded in increasing operating revenue for Duha Syariah so that as of June 30, 2023, Duha Syariah managed to record a profit of IDR 257 million. The results of an interview with one of the BPRS located in Bandung,

Purbalingga, Garut, and one of the rural banks located in Tasikmalaya that the collaboration with Duha Syariah contributed positively to the bank's operating income receipts so as to increase operating profit generation.

Financial statements obtained from the OJK website for BPR's financial performance, and PT Duha Madani Syariah's financial statements obtained from the company's internal

The collaboration between BPR and Duha Syariah has a positive impact on business revenue generation. The funding provided by BPR to Fund Recipients through Duha Syariah continues to increase so that the company can book profits in 2023. The same thing is also experienced by rural banks where collaboration contributes to operating income and bank profits

The discussion of the research results regarding the analysis of BPR collaboration with Duha Syariah is as follows:

Cooperation Agreement (PKS)

In the process of drafting a cooperation agreement, the parties should have an overview of the stages of cooperation preparation and compile a time-line for the completion of the cooperation process according to mutual agreement so that the cooperation preparation process can be more effective and faster. To facilitate coordination between BPR and Duha Syariah, media that can be accessed together such as Whatsapp Group can be made.

The agreed scope of cooperation between BPR and Duha Syariah is a channeling scheme where BPR disburses loans to Fund Recipients through Duha Syariah intermediaries. BPR provides a number of loan ceilings to Duha Syariah whose ceiling size is according to the policies of each BPR. In the cooperation agreement, Duha Syariah's role is to find and select Fund Recipients according to the risk profile agreed between BPR and Duha Syariah (Risk Acceptance Criteria). Then Duha Syariah conducts the Know Your Customer process and analyzes the capabilities of the Fund Recipient. After the selection and analysis process is complete, Duha Syariah then offers BPR to conduct an analysis according to BPR's internal policy and give a decision to accept or reject it.

Rights and obligations in a cooperation agreement are important components to determine the clarity of the role of each party, legal protection, and dispute prevention. By collaborating, the parties set responsibilities, mutual expectations, and agreements on profit sharing and handling risks that can occur (Dianto, 2020). Rights and obligations for rural banks include selecting customers, receiving information about customers, approving or rejecting loan applications, obtaining rewards, and related SLAs. Meanwhile, the rights and obligations for Duha Syariah include conducting loan analysis, offering loan applications to BPR, receiving fees, returning loan funds no later than 2 working days since the funds are received from the Fund Recipient, and assisting BPR in conducting surveys,

Regarding the differences in policies between BPR and Duha Syariah regarding Risk Acceptance Criteria, information disclosure to Fund Recipients, speed of service (service level agreement), loan disbursement mechanism, the parties put forward discussions to find win-win solutions and flexible so as to achieve an optimal cooperation scheme for each party. Duha Syariah provides space for BPR to visit Fund Recipients and meet with its management. However, in every visit, BPR must be accompanied by Duha Syariah.

To protect the fintech lending business related to the disclosure of profile information of Fund Recipients, the Cooperation Agreement stipulates a clause where BPR is not allowed to provide loans directly to Fund Recipients without going through Duha Syariah. Through this clause, it is hoped that transparent cooperation will be established and maintain the trust of each party. The advantages of fintech lending platforms that can process loans quickly and the scoring system in analyzing prospective Fund Recipients are factors that strengthen BPR cooperation with fintech lending even though the profile of the Fund Recipient is known by BPR.

Related to the loan disbursement process, BPR cannot disburse loan funds directly to the Fund Recipient but must be transferred to the BPR virtual account located in Duha Syariah, then Duha Syariah forwards the funds to the Fund Recipient's account. To accommodate the needs of BPR, in the loan agreement between Duha Syariah and the Fund Recipient, it is stated that Duha Syariah is a representative of BPR who acts as the Fund Owner.

For the referral cooperation scheme, it has not yet run between BPR and Duha Syariah. For Duha Syariah, this scheme can be considered as a short-term solution if the BPR loan ceiling has been all distributed. Through referral cooperation, fintech lending organizers act like marketing that refers Fund Recipients to BPR. BPR conducts the entire analysis process before the loan is disbursed.

In the cooperation agreement between BPR and Fintech Lending , you should contain the following::

- a. Scope of cooperation
- b. Loan scheme
- c. Term of cooperation agreement (extendable)
- d. Rights and obligations of each party
- e. Commercial aspect (profit sharing and costs)
- f. Data transparency and confidentiality
- g. Provisions related to late payment penalties
- h. Settlement in force majeure conditions
- i. Default or dispute resolution
- j. Correspondence

Requirements and mechanisms for implementing cooperation, namely:

- a. funding distribution criteria and requirements;
- b. Process stages
- c. indikator credit scoring Fintech lending;
- d. penentuan Risk Acceptance Criteria (RAC);
- e. Service Level Agreement (SLA) settings;
- f. disbursement of funds and payment of obligations;
- g. Document Storage Administration
- h. Billing mechanism
- i. Risk mitigation in the event of a bad loan
- j. Mechanism for Resolving Problematic Loans

BPR needs to have Standard Operating Procedures (SOPs) to carry out cooperation with fintech lending that is guided by applicable laws and regulations, prioritizes prudential principles, and implements good risk management. For rural banks that are in the stage of collaborating with fintech lending, BPR can learn SOPs from rural banks that have collaborated with fintech lending.

The fintech lending business model offers convenience and speed to its users, therefore BPR needs to adapt and adjust the speed of processing loan approvals as long as it does not violate applicable laws and regulations. BPR and Duha Syariah reached an agreement related to the Service Level Agreement (SLA) for 2 (two) working days in processing one loan application starting from checking, analyzing, to disbursing loan funds. To maintain this SLA, there needs to be good coordination between parties, the parties carry out their responsibilities adequately, and conduct periodic evaluations.

Regarding the cooperation of the white-label scheme, although Duha Syariah has not yet implemented this scheme, it has the potential to be followed up because in interviews conducted by researchers obtained information of interest from BPRS located in Purbalingga and BPRS located in Garut to explore the scheme. The white-label scheme will accelerate BPR in adopting technology to improve lending services to its customers. Duha Syariah can be a technology partner for rural banks, as explained by the Hannover Economic Papers (2018) regarding the concept of fintech and bank collaboration. Based on the observations of researchers, one example of collaboration between banks and fintech lending with white-label schemes is between Deutsche Bank and Credi2. Deutsche bank provides pay later solutions for e-commerce and digital marketplaces for its customers, while Credi2, headquartered in Vienna, Austria acts as a partner providing technology infrastructure (Deutsche Bank Media Release, 2022)

4. Conclusion

Based on the results of the research through observation and analysis of research findings as described in Chapter 4, the following conclusions are obtained:

The preparation of an optimal BPR cooperation agreement with fintech lending must begin by preparing the stages of the cooperation process properly and the timeline agreement so that it can be completed on target. The preparation of cooperation begins with the signing of a Non Disclosure Agreement (NDA). Fintech lending prepares supporting documents and loan portfolios completely and is submitted in advance to BPR to be studied while parallel the discussion of cooperation agreements. BPR and Fintech lending must be able to adapt to each other so that an agreement is reached on the scope of cooperation and the rights and responsibilities of each party can be fulfilled and protected.

Fintech lending organizers must have high precautionary principles and determine clear target beneficiaries. One of them is by determining the target of Fund Recipients who are open but limited (close loop) according to references or recommendations from trusted parties. The loan period that is cooperated between BPR and fintech lending is more suitable for short-term loans, which is less than 6 months because BPR needs to maintain liquidity. The loan segment is channeled to the productive sector through an invoice financing scheme because the risk is more measurable. BPR must be able to regulate liquidity so that cooperation with fintech lending is not interrupted and can fulfill the rights of depositors or depositors if they want to withdraw funds at any time.

Fintech lending providers must strengthen risk mitigation against potential losses due to default through non-fixed asset guarantees such as Personal Guarantees or Corporate Guarantees from company owners authorized by a notary; check/giro backwards guarantee according to the payment account in the invoice; and joint account according to the payment account on the invoice. Then fintech lending organizers provide opportunities and facilitate rural banks to meet directly with recipients of funds that will be funded by rural banks. Thus, BPR can conduct a more in-depth analysis when visiting the Beneficiary's office.

The Financial Services Authority (OJK) as the supervisor of the banking and non-banking financial sector industry is expected to further encourage BPR collaboration with fintech lending. The role of OJK is indispensable in advancing rural banks by increasing collaboration with strategic partners. Strengthening the financial industry also needs special attention from OJK through policies or regulations as a legal umbrella that supports collaboration and solutions to protect the risk of default that arises.

The cooperation between BPR and fintech lending that adapts technology can create an efficient and effective way of working. Operating expenses can be managed well, which is reflected in the ratio of BOPO (Operating expenses to operational income) at a healthy level. BPR management can encourage the marketing division that has been handling traditional loan distribution to be creative and innovative in making attractive new loan products or more creative and attractive ways of offering loans.

As a result of the collaboration with BPR, Duha Syariah's operating revenue increased and managed to record a profit for the June 2023 period. The same thing was also experienced by BPR in collaboration with Duha Syariah where there was an increase in revenue in 2021, 2022, and the period of June 30, 2023. The health level of BPR, as measured by the ratio of ROA and BOPO as of June 30, 2023, is in the healthy category.

5. References

- Anggraeni, silvia ika. (2019). The Disruption Of Fintech On Rural Bank: An Empirical Study On Rural Banks In Indonesia. *A Journal*, 1(UII), 1–10.
- Dianto. (2020). Business Education Funding Partnership. *Business Education Funding Partnership*, 9(January), 336–344.
- Earners, Unbanked Low income. (2021). Effect of Financial Technology Loans on Financial Inclusion Among the Effect of Financial Technology Loans on Financial Inclusion Among the Unbanked Low-Income Earners in Makueni County. *International Journal of Current Aspects in Finance*, 3(March 2022), 1. <https://doi.org/10.35942/ijcfa.v3i2.183>
- Fatoni, Ahmad. (2022). Pengaruh Peer to Peer (P2P) Lending Terhadap Pembiayaan Bank Syariah Di Indonesia : Peluang Atau Ancaman Bagi Bank Syariah ? *EKnominasi*, 3(4), 791–795. <https://doi.org/10.47065/ekuitas.v3i4.1594>
- Firmansyah, Reno. (2020). Fenomena Umkm Di Sidoarjo Yang Menggunakan Lending Fintech Technology. *ilmiah*, 1(Perbanas), 1.
- Jin, Yi, Gao, Xin, & Li, Donghui. (2022). The Effect of Fintech on Conventional Bank Performance and Bank Risk Harmadi(B). *Journal of International Financial Markets, Institutions and Money*, 80(ICBE), 140–152. <https://doi.org/10.1016/j.intfin.2022.101634>
- Kohardinata, Cliff, Suhardianto, Novrys, & Tjahjadi, Bambang. (2020). Peer-to-peer lending platform: From substitution to complementary for rural banks. *Business: Theory and Practice*, 21(2), 713–722. <https://doi.org/10.3846/btp.2020.12606>
- Lova, Evi Fajriantina. (2021). Financial Technology Peer To Peer Lending Syariah_ Sebuah Perbandingan Dan Analisis - bab 1.pdf (bl 29). bl 29.
- Marginingsih, Ratnawaty. (2021). Financial Technology (Fintech) Dalam Inklusi Keuangan Nasional di Masa. *Akuntansi*, 8(1).
- Mauline, Riesti. (2022). Pengaruh Pertumbuhan Perusahaan Finan- Cial Technology Terhadap Kinerja Perbankan. *Ekonomi*, 1(1), 143–155.
- Navaretti, Giorgio Barba, Calzolari, Giacomo, Mansilla-Fernández, José Manuel, & Pozzolo, Alberto Franco. (2017). FinTech and Banking. Friends or Foes? *Journal European Economy – Banks, Regulation, and the Real Sector*, (2017.2), 9–30.
- Nugraha, Deni Pandu, Setiawan, Budi, Nathan, Robert Jeyakumar, & Farkas, Maria Fekete. (2022). Fintech Adoption Drivers for Innovation for SMEs in Indonesia. *Journal of Open Innovation: Technology, Market, and Complexity*, 8(4), 208. <https://doi.org/10.3390/joitmc8040208>
- Tang, Huan. (2019). Peer-to-Peer Lenders versus Banks : Substitutes or Complements ? *The Review of Financial Studies*, Volume 32(5, May 2019), Pages 1900–1938.
- Wajuba, Ladi, Fisabilillah, Perdini, Hanifa, Nurul, Surabaya, Universitas Negeri, & Surabaya, Universitas Negeri. (2021). ANALISIS PENGARUH FINTECH LENDING TERHADAP BANK. 1(3), 154–159. <https://doi.org/10.31960/ijoei.v1i3.866>
- Yue, Pengpeng, Korkmaz, Aslihan Gizem, Yin, Zhichao, & Zhou, Haigang. (2022). The rise of digital finance: Financial inclusion or debt trap? *Finance Research Letters*, 47(December), 1–8. <https://doi.org/10.1016/j.frl.2021.102604>