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Evaluating Risk Management in Sharia Fintech Peer-to-Peer Lending: A Comprehensive Analysis of Credit, Liquidity, Operational, and Sharia Risk

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Abstract:*This research focuses on evaluating risk management practices in financing through Sharia Fintech Peer-to-Peer (P2P) lending platforms. P2P lending represents a significant innovation in the financial sector, enabling direct interactions between borrowers and fund providers via digital platforms. In the context of Sharia finance, effective risk management is crucial to ensure compliance with Sharia principles. This study utilizes qualitative and quantitative analysis methods to identify and evaluate various aspects of risk management, including credit risk, liquidity risk, operational risk, and Sharia risk, associated with financing through Sharia P2P lending platforms. The goal is to provide a comprehensive understanding of the effectiveness of risk management strategies in this context.*

Keywords: *Risk management, Sharia Fintech, Peer-to-Peer lending, Credit risk.*

BACKGROUND

Peer-to-Peer (P2P) lending has emerged as a disruptive force in the financial industry, offering borrowers and lenders a direct platform to engage in financing activities without the intermediation of traditional financial institutions. This model has been particularly embraced in Sharia finance, where adherence to Islamic principles is paramount.

Risk management plays a pivotal role in ensuring the stability and sustainability of Sharia Fintech Peer-to-Peer (P2P) lending platforms. Credit risk, arising from the potential default of borrowers, liquidity risk related to the availability of funds, operational risk associated with internal processes and systems, and Sharia risk concerning compliance with Islamic principles are key areas of concern.

Through a combination of qualitative and quantitative analysis methods, this research aims to delve into the intricacies of risk management in Sharia Fintech P2P lending. By evaluating and identifying best practices, challenges, and opportunities in managing credit, liquidity, operational, and Sharia risks, this study seeks to contribute valuable insights to the evolving landscape of financial innovation within Sharia-compliant frameworks.

RESEARCH METHODS

This type of research is empirical and uses a qualitative approach. The qualitative method was chosen as a research method where the findings in the research were not obtained through statistics or other forms of calculation (Gunawan, 2015). So in this research the author tries as much as possible to describe a symptom of an event, an event that is occurring in the present or takes actual problems as they exist in the research. The data source used is secondary data according to Nur Indrianto and Bambang Supomo (2013: 143) secondary data is: "Secondary data is a source of research data obtained by researchers indirectly through intermediary media (obtained and recorded by other parties)". Secondary data used by researchers is company records or documentation in the form of ebooks, company publications, government reports, data from previous research, *official blogs* , and others.

THEORETICAL BASIS

1. **Financial Technology (Fintech)**

   Financial technology or Fintech when referring to the definition originating from the National Digital Research Center or money known as NDRC defines Fintech as a financial innovation in the scope of financial or financial services, and is collaborated with the latest modern technology. Fintech itself can be said to be an effort to maximize the use of technology starting from payment methods, collections, transfers, loans to asset management with the aim of accelerating, strengthening and changing various financial services that can be carried out effectively and efficiently (Maulida, 2019).

   Meanwhile, Sharia Fintech is a combination of financial institutions and modern technology that offers convenience in accessing information processes and transaction processes that are still based on sharia or Islamic law.

2. **Peer to Peer Landing**

   A technology platform that brings together virtually borrowers (beneficiaries) or parties who need capital with lenders (funders) or parties who provide loans, via website or application platforms (Hapsari, 2018). A fintech company based on sharia P2P Lending services can be said to be a sharia financial institution, because the activities carried out by the institution, both in the process of collecting and distributing funds, provide and charge rewards or are based on sharia principles which constitute selling. buy and share profits, (Kasmir, 2012) regarding Islamic financial institutions.

3. **Financing procedures**

   What a fintech company does in its efforts to raise funds is to invite investors or lenders who then work together in a partnership (joint financing) to then invest their funds in the company. This activity is called crowd funding (Wijayanti, 2018). With the results of the collection of funds from investors, a financial institution will be able to distribute funds through financing.

   In sharia provisions, it is obligatory for financial institutions to act fairly ('adl), balanced (tawazun), maslahat (maslahah), and universal (alamiyah) and there must be no elements of maysir, haram objects, gharar, zhulm, risywah, and usury. Procedures are an important part of the stages or sequence of activities in accordance with the financing conditions and contracts, because these procedures provide an overview of the nature or method for carrying out financing activities (Rusdan & Antoni, 2018).

4. **Risk management**

Risk management is a process *of identification, analysis* and *mitigation* of uncertainty in an investment decision that will be made (Charity Ezigbo, 2013). Risk management basically occurs when a manager or investor analyzes funds and data to measure potential losses in an investment, then takes appropriate mitigation actions by providing action on investment objectives and risk tolerance (Sumarin, 2012). A company/institution must comprehensively carry out identification, quantification, monitoring and control to increase the value of a company in determining appropriate actions or solutions so that no party is harmed so that both investors and recipients of funds feel safe.

DISCUSSION

A. PT profile. Alami Fintek Sharia (ALAMI)

Financial technology is a form of *"new concept"* to facilitate user meetings during the financial transaction process, no face-to-face interaction is required. (Meifang et al, 2018), the presence of the internet in financial transactions can provide superior accessibility and range of access. PT ALAMI fintek Sharia is here to answer the public's anxiety in meeting the need for capital funds but has doubts about the laws or sharia of the fintech. PT ALAMI fintek sharia, which is more widely known as ALAMI, is an abbreviation derived from six surahs in the Koran, namely Alif Lam Mim.

PT Alami fintek sharia is a financial institution that operates in the P2PL sector which is intended to *"meet and connect"* between recipients of funds and capital owners in order to carry out financing contracts using electronic media without ignoring sharia principles. ALAMI is intended for funders who wish to provide funding or lend funds. Currently, the ALAMI financing program is intended for productive financing for business entities (in the form of PT or CV or UKM) with an *Invoice Financing financing scheme. Invoice financing* at Alami is financing in the form of receivables collection services based on proof of invoice (invoice), whether accompanied by or without bailout (qard) which is given to business actors who have bills from third parties (payors). Below is data on the amount of financing distributed by PT Alam Fintek Syaria until 2022

Financing data for PT Alami Fintek Syaria 2022

Source: NATURAL data

B. PT Alami Sharia Risk Management Process

1. Identification Process

Risk management is a process *of identification, analysis* and *mitigation* of uncertainty in an investment decision that will be made as stated by Charity Ezigbo (2013). The biggest risk for a company based on financing is the risk of failure to pay by the recipient of the funds to PT ALAMI Fintek Syariah as the funder's representative (Alami, 2020). Therefore, the first process carried out by PT ALAMI Syariah is to identify the recipient of the funds, before ALAMI gives its approval to the loan application, the team from ALAMI, namely ALAMI's *risk analysis team* , is tasked with checking documents and analyzing the *credit scoring* of SMEs who apply for funds (screening). To become a funder you can do:

a. Funders register on the ALAMI platform by submitting a NPWP, KTP and personal bank account.
b. The verification process is complete, select financing according to the funder's criteria from the dashboard and analyze it.
c. After selecting the desired project, Funders can fund funds starting from IDR 1,000,000 from a registered personal bank account to the Funder Fund Account (RDF)
d. When it is due, ALAMI will make a refund along with ujrah to RDF and can withdraw it to a personal account, or use it as refinancing.

And for potential recipients of funds or beneficinaries there are much stricter requirements, this is done as a risk management step by PT ALAMI Syaria, including:

a. has legalization

A legal business entity, whether UKM, PT or CV, generally has its own financial reporting standards, either *audited* or *in - house, where* further analysis can be carried out for the financing needs that will be proposed.

b. Location JABODETABEK.

These criteria are temporarily set for potential recipients of funds so that the risk management team from ALAMI can directly carry out *the site visit* to SME business premises as one of the requirements for financing recipients.

c. Operate for a minimum of one year.

ALAMI calculates this criterion where the UKM has been operating for a period of one year for the minimum limit where the UKM has been *settled* and *established* in the industrial sector proposed for financing as evidenced by the existence of financial reports and a company permit or SIUP in the industry.

d. Quality of relationship with *bouwheer*

ALAMI Syaria ensures that a good relationship has been established between UKM and *the supplier or party providing funds* . This can be seen from the length of time the collaboration lasts for projects that are submitted for financing to ALAMI Syaria and seeing how the invoice payment pattern from Bouwheer is to potential recipients of funds when seen from the company's checking account.

e. Completeness of legal documents held

PT ALAMI requires legal documents such as TDP, SIUP, NIB, Deed of Establishment, NPWP, etc. which are also accompanied by *the company profile* , minimum bank statement for the last 6 months, financial reports, as well as complete invoice documents such as tax invoices, Invoice Receipts which have been signed by the *bouhwer* , as well as Minutes of Handover or BAST which are used as proof of the duties and all obligations of the UKM in *Bouwheer's* side has been resolved according to the provisions. All documents are checked using a manual system so that their validity and validity can be ensured.

f. Total annual sales

ALAMI itself is considering providing financing for Small and Medium Enterprises, which are classified as companies with a turnover of between IDR 300 million to IDR 2.5 billion per year, while medium enterprises themselves are classified as having a turnover of IDR 2.5 million to IDR 50 billion. ALAMI offers invoice financing starting from IDR 50 million.

2. Analysis of potential funding recipients

What follows is the identification of a recipient of funds by PT Alami Syariah, followed by an analysis of potential recipients of financing. When the recipient of funds makes a financing application, ALAMI Sharia at the start of the contract will ask for several guarantees, namely a personal guarantee or personal guarantee from the directors or shareholders and post-dated checking account or *post-dated check* for the value of the bill. Apart from that, financial reports from the business for the last 2 years will also be requested along with mutations from bank statements for the last 6 months and other legal documents.

In accordance with *the Risk Acceptance Criteria* (RAC), which is a financial institution's assessment of prospective debtors to determine or ensure whether or not the prospective debtor is eligible as a recipient of financing which has become a provision in ALAMI Syariah, an assessment and rating will be carried out on the quality of the relationship between the recipient of the funds and the *borrower.* , the quality of the *bouwheer* itself, as well as the quality of the SMEs who are potential recipients of funds (Aziz, 2021). ALAMI needs to do this because it is very important to be able to help funders/investors/buyers to mitigate risks independently before deciding to undertake financing. This analysis can be carried out both qualitatively and quantitatively by analyzing the information thoroughly from what has been given weight by ALAMI as well as assessing each factor and criteria so that the length of operation of the company also needs to be considered, with the assumption that the longer the company has been around, the more experienced and proficient it is in running his business.

In order to complete data from financial reports, ALAMI Syariah also carries out careful and detailed assessments such as checking bank statements from SMEs to see cash flow and the amount of sales that have entered the SME account. Where the more representative the account mutation is to the figures contained in the financial report, the more accurate the financial ratio data that can be drawn from the financial report will be.

ALAMI itself also ensures that prospective recipients of this financing have collateral *or* second *hand aspects way out* . The guarantee set by ALAMI is not *fixed assets* as applied by banks. SMEs can prepare individual guarantees (*Personal Guarantee)* as management or shareholders in the UKM concerned and stating that they can guarantee payment. Apart from using individual guarantees (

Personal Guarantee) can also be used *Post – Date Check* (PDC) or post-dated giro used as a means of payment. Even though it is not a guarantee, this giro can effectively guarantee that disbursement can be made when the financing is due.

The assessment and weight of all RAC aspects that have been analyzed can then be combined to obtain an internal Risk Rating from ALAMI. Only prospective financing recipients who are able to meet the risk rating standards set by ALAMI can then be categorized as qualifying to become recipients of financing or funding on the ALAMI Syaria platform. Based on the risk rating, where the star rating system is 1 – 5 for each project that receives financing, meaning that if you get 1 star the risk is greater and a 5 star rating means the risk faced is smaller. If the risk that must be borne by the paying party is greater, the reward or *reward* that the paying party will receive can be even greater.

3. Risk Mitigation Process Carried Out by PT ALAMI

Then the mitigation that can be carried out by PT Alami Syariah is by collaborating with Pefindo Credit Bureau or PKB as a private credit bureau which can have information on how many loans have been made, how aggressive the SMEs are in applying for financing, *track records* from SMEs whether payments are ever late and the reasons or whether they are always on time, and also the provision of *credit scoring* . This inspection is carried out internally and externally both on *buyers* / *payors* , as well as on SMEs as potential recipients of the financing. This is an important step in mitigating ALAMI's risk because the information held by private credit bureaus will really help PT ALAMI in determining the suitability of SMEs to receive financing.

The ALAMI Risk Team has carried out regular monitoring of the development of various industries and it is important to assess the smoothness of the financing carried out, the results of which are the weight of this assessment which is used to assess the risk rating of the project which is then looked at for the prospects of the related industry. The ALAMI Risk Team collects this information, including from *the web checking* and using third party platforms that can be used as sources of related industry information. This is also done to serve as a reference for the criteria for which industries can be given financing and which ones should be rejected if the industry is in the *sunset phase* or is in a crisis condition.

To resolve the problem, ALAMI chose the discussion route and asked for a new payment date commitment, which was considered effective and humane. In principle, the financing carried out is " *trust." no one* ". The implementation of this is by always updating to carry out factual checks on the factual data held by UKM and carrying out a strict selection process for each UKM that will apply for financing. By carrying out a multi-layered selection process to ensure that the selected SMEs have good quality, but it is done in the most effective and efficient time possible, supported by technological tools that have wider reach and can carry out *P2PL transactions* by providing productive financing that can empower the Indonesian SME sector. In P2PL sharia, payment failure is a risk that can occur, but in PT ALAMI Syariah, TKBP90 in Alam Sharia is still 100% and TWP90 (90 day default rate) is at 0%, which means that there has never been a payment failure during a certain time period so it can be avoided. dharar (danger).

From the explanation, it can be said that PT ALAMI Sharia has carried out sharia fintech P2PL transactions which are in accordance with existing economic principles starting from the identification stage of potential recipients of funds, analysis carried out by PT ALAMI and risk mitigation carried out by PT ALAMI Syariah.

CONCLUSION

Financial institutions have a basic function, namely to allocate funds originating from savers (surplus parties) or what can be called fund owners to borrowers (deficit parties). Sharia fintech provides services that are different from conventional fintech where what sharia-based fintech offers cannot be separated from the characteristics of sharia business where this business is based on the foundations of sharia economics itself, including divinity or divine, justice or al-adl, prophethood or nubuwah, government or al caliph, and results or al maad.

PT ALAMI fintek Sharia is here to answer people's anxiety in meeting the need for capital funds but has made Islamic law one of its references. PT ALAMI fintek sharia, which is more widely known as ALAMI, is an abbreviation derived from six surahs in the Koran, namely Alif Lam Mim. In accordance with the RAC which has become a provision in ALAMI Syariah, an assessment and rating is carried out on the quality of the relationship between the recipient of funds and the supplier , the quality of the *agent* himself, as well as the quality of the SMEs who are potential recipients of funds.

It can be said that PT ALAMI Sharia can be said to be in accordance with the economic principles carried out starting from the stage of identifying potential recipients of funds, analysis carried out by PT ALAMI and risk mitigation carried out by PT ALAMI Syariah.

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