Marketplace Lending - Addressing the Financing Gap

Adrian A. Gunadi –
Co-Founder & CEO Investree
Vice Chairman Indonesian Fintech Association

OJK International Seminar - July 2017
Agenda

1. Fintech Industry
2. Investree Story
3. Fintech Risk Framework
4. Sample Demographics
5. Collaboration
What is FinTech

It’s an economic industry composed of companies that use technology to make financial services more efficient.

Function of financial services

- Payments
- Market Provisioning
- Investment Management
- Insurance
- Deposits & Lending
- Capital Raising
Who are the players?

Traditional financial institutions are actually part of the industry – but start-ups take it up a notch

<table>
<thead>
<tr>
<th>Financial Institutions</th>
<th>Traditional FinTech Players</th>
<th>Innovative FinTech Start-Ups</th>
</tr>
</thead>
<tbody>
<tr>
<td>Include banks, insurance companies and capital markets.</td>
<td>FinTech vendors provide a variety of incumbent technology and services to financial institutions, including banking and payments services, consulting solutions, outsourcing and risk management solutions.</td>
<td>New market entrants are leveraging technology advancements to offer innovative and disruptive solutions for specific subsectors.</td>
</tr>
<tr>
<td>Many of these organisations use old fashioned mainframe systems that are a significant barrier in today’s fast moving digital world.</td>
<td>They are investing in and acquiring innovative FinTech start-ups.</td>
<td>In doing so, they are providing new products to service existing needs and disintermediate incumbent firms.</td>
</tr>
<tr>
<td>Despite making significant investments in their IT systems and infrastructure in recent years, most financial institutions have merely patched-up their existing systems to compete with other banks.</td>
<td>Providers include Fidelity National Information Services (FIS), Fiserv, SunGard, Infosys and FirstData.</td>
<td>This is especially true in the payments and P2P lending segments.</td>
</tr>
<tr>
<td>Many financial institutions have recently started innovation labs and venture capital funds to make strategic investments in FinTech businesses.</td>
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Unbundling of financial services

Fintech start-ups are unbundling basic financial services using technology
Fintech Unicorns in the World

In 2015 fintech companies attracted over USD 13.8 bio in venture capital funding through 653 deals. Payments and Lending have attracted the most

The four biggest FinTech unicorns in the world are Chinese:
Ant Financial ($60 B), Lufax ($18.5 B), JD Finance ($7 B), & Qufenqi ($5.9 B)

By Sector:
Payment ($77.9 B) and Lending ($30.4 B) are the highest valued fintech market

Source: www.visualcapitalist.com
Asian Fintech Investment - USD 5.4 Bio in 2016

Percentage of Banking/Financial Service Customers using FinTech Services

Rising Fintech Investments in Asia

Source: DBS Bank 2016 – The rise of FinTech in China

Source: CBInsights Feb 2017
Fintech Industry - Indonesia Story

Jun'17

Fintech Startup Funding:
- Total IDR 486 billion (USD 40 mio)
- VC Investors 19VCs

Fintech Potency:
- Credit market gap IDR 800 trillion (USD 70 bio)
- Bank account ownership 40% (2016)
- E-commerce Growth 60% Y-O-Y
- Mobile penetration 130%
- Demography bonus (<30yrs) 50%

Registered Fintech:
- 160
- Member of Indonesia Fintech Association 101

Type of Fintech:
- Cryptocurrency
- Payment system
- Crowdfunding
- Peer-to-peer lending
- Aggregator & investment management

Cryptocurrency: 10%
Payment system: 40%
Crowdfunding: 25%
Peer-to-peer lending: 20%
Aggregator & investment management: 5%

Global Fintech Transaction:
- Estimation in 2017, USD trillion
- Indonesia 0.18
- Australia 0.26
- India 0.44
- England 0.9
- United States 1.02
- China 1.08
- Total: 3.3

Source: AFTECH, Mckinsey2016
Indonesia’s Fintech Landscape

Source: Fintech Indonesia

KEJORA INVESTMENT
Investree - Indonesia’s Pioneer Marketplace

Our Background
- Launched in May 2016
- Registered OJK in May 2017
- Senior team’s average 12 yrs banking know-how combined with innovative tech
- 40 employees

Our Traction
- > IDR 200 bio loans originated
- NPL 0%
- Business + Personal Loan
- Geographic footprint: Jabodetabek, Semarang, Surabaya, Vietnam (Jan’18)
- 90% retail investors - 6,000 registered
- 700 unique borrowers

Our Series A - Round
- Closed Series A round in Sept 2016 growth capital to support expansion plans
**Our Busy Marketplace**

**Buat hari ini lebih bermakna**


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Dapatkan return hingga

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Investree is a Peer-to-Peer Lending Business & Employee Marketplace that connects both Lenders and Borrowers, we provide a secure way for both party to lend and borrow to each other. We select, analyze, and approve loan application to offer creditworthy loan to Lenders.

**LENDERS**
- Individual
- Institutional

6000+ active retail investors across Indonesia

**BORROWERS**
- SME
- Employees

Min IDR 5 mio crowd-investment to Business Loan

Facilitated lending to 700+ businesses

Min IDR 1 mio crowd-investment to Employee Loan

Cash Management bank

All loan-borrowing transactions

Loan repayment
Our Target Market - Bridge the Financing Gap

Loan purposes
- Working capital
- Investment

Means of financing
- Internal funds (86%)
- Bank loans (6%)
- Supplier credit (1%)
- Others (7%)

Key hurdles
- No Collateral
- No credit history
- Long credit application processing time

Solution
- Invoice Financing
- No fixed asset collateral
- Escrow account
- 100% online

Target market
- Employee – First jobber
- Millennials
- Contract employee

Solution
- Company partnership
- Streamlined process
- Unsecured, but salary deduction
- 100% online
- Big data analytics

Our Products Suite - Business & Personal Loan

**Employee Loans**
- Individual employee loans through partners companies
- Loan size from IDR 5 Mn to 50 Mn
- 3-12 months tenor
- Interest rate -0.9-2.2% p.m
- Salary deduction by partner companies

**Invoice Financing**
- Short term invoice financing of reputable payors upto IDR 2 Bn
- 80% of Invoice value
- Interest rate-14%-20% annual
- Flexible tenor of 30-180 days
- Safe repayment through escrow a/c

**Distributor Financing**
- Revolving credit for purchase transactions based on Anchor recommendation
- Loan size from IDR 50 Mn to 2 Bn
- Bullet payment of 30-90 days
- Multiple drawdowns for repeat purchases
- Interest rate -14%-20% annual

**E-Merchant Cash Advance**
- Short term working capital to reputed payment gateway vintage users
- Loan size upto IDR 2 Bn ,tenor upto 12 months
- Fixed monthly repayment routed by partner payment gateway
- Interest rate of 14-10% annual

**E-Seller Financing**
- Historical data based working capital loan to sellers on E-commerce marketplaces.
- Loan size upto IDR 2 Bn
- Tenor 6 months, Interest rate 14%-20%
- Direct repayment from Ecommerce marketplace from B2C receivables

**Pre-Invoice Financing**
- Short term loans in pre invoice stage recommended by anchors
- Maximum 50% of purchase order
- Loan size upto IDR 2 Bn
- Interest rate of 16%-22% annual
- Repayment through strong escrow of the payor/anchor
Our Achievements So Far  
as of July 13th, 2017

IDR 232 bio (USD 18 mio)  
Total Loans originated

of

702 Total Loans

3 days  
Average Funding Period

&  
17.3%  
Average Loan Return

60 days  
Average Business Loan Tenor

&  
12 months  
Average Employee Loan Tenor

Default  
0%

IDR 180 bio (USD 14 mio)  
Total Loans repaid

of

490 Paid Loans

AND KEEP GROWING
Navigating risks in Fintech

FinTech comes with positive and negative effects – and risks beyond the reach of supervision

Risk Management Approach

- Self regulating controls
- Managing risks and innovation
- Collaborate with other fintech to mitigate potential risks
Investree Risk Management Framework - Self Regulatory Monitoring

Investree Risk Management manages controls and mitigations of all risk aspects from Investors, borrowers, and reputations of Investree.

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<th>Reputational + Legal Risk</th>
<th>Credit Risk</th>
<th>Regulatory Risks</th>
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<tr>
<td>• Internal and external Process Control</td>
<td>• Investor and borrower relations</td>
<td>• Undesirable target market</td>
<td>• Incoming regulatory BI and OJK</td>
</tr>
<tr>
<td>• Internal and external fraud practices</td>
<td>• Weak Legal Clauses</td>
<td>• Repayment capacity</td>
<td>• Good Corporate Governance Standards</td>
</tr>
<tr>
<td>• System infrastructure and architecture</td>
<td>• Breach of agreements</td>
<td>• Credit character and delinquent intentions</td>
<td>• Investor Relations</td>
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<td>• System vulnerabilities</td>
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<td>• Regional Expansion: regulatory challenges</td>
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<td>• Operations downtime and production supports</td>
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<td>• Failure in salary direct debit</td>
<td>• Increasing P2P market competition</td>
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<td>• Database security, controls, privacy, and integrity</td>
<td>• External communications, media releases and monitoring</td>
<td>• Portfolio Concentration</td>
<td>• Collection effort impacts</td>
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<tr>
<td>• Third party data privacy confidentiality and security</td>
<td>• Collection effort impacts</td>
<td>• Aggressive risk appetite</td>
<td>• Customer services</td>
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<td>• Customer services</td>
<td>• Error in credit scoring model</td>
<td>• End to end system failure impact</td>
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<td>• Force Majeure and Disaster Recovery Programs</td>
<td>• End to end system failure impact</td>
<td>• Failure to use 4 risk layers: external and internal checks</td>
<td>• Other P2P competitors failure or fraud incidents</td>
</tr>
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<td>• Employment practices and safety standards</td>
<td>• Other P2P competitors failure or fraud incidents</td>
<td>• Over leverage / exposures</td>
<td>• Regulatory Risks</td>
</tr>
<tr>
<td>• Self Assessment</td>
<td>• Undesirable target market</td>
<td>• Tenor risks</td>
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<tr>
<td>• Audit trail</td>
<td>• Repayment capacity</td>
<td>• Collection effort and recovery failures</td>
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Operational and IT Risk:
- Internal and external Process Control
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- System infrastructure and architecture
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- Force Majeure and Disaster Recovery Programs
- Employment practices and safety standards
- Self Assessment
- Audit trail

Reputational + Legal Risk:
- Investor and borrower relations
- Weak Legal Clauses
- Breach of agreements
- Privacy and confidentiality liabilities
- Investors Relations
- External communications, media releases and monitoring
- Collection effort impacts
- Customer services
- End to end system failure impact
- Other P2P competitors failure or fraud incidents

Credit Risk:
- Undesirable target market
- Repayment capacity
- Credit character and delinquent intentions
- Delayed payoff
- Failure in salary direct debit
- Portfolio Concentration
- Aggressive risk appetite
- Error in credit scoring model
- Failure to use 4 risk layers: external and internal checks
- Over leverage / exposures
- Tenor risks
- Collection effort and recovery failures
- Insurance claim failures
- Disbursement Failures

Regulatory Risks:
- Incoming regulatory BI and OJK
- Good Corporate Governance Standards
- Investor Relations
- Regional Expansion: regulatory challenges
- Increasing P2P market competition
Marketplace Risk Model

We use a robust & alternative approach to measure borrower’s creditworthiness.

The interest rate is determined by numbers of factors:
- Monthly cashflow
- Annual sales
- Client’s industry
- Historical business relationship.
To assess business borrower’s risk.

We also use certain factors:
- demographics
- Employment history
- salary
- Employer’s industry
To assess employee borrower’s risk.

Our underwriting process filters loan applications to ensure loans with good creditworthiness are offered on the marketplace.

<table>
<thead>
<tr>
<th>Grade</th>
<th>Business Loan</th>
<th>Consumer Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1++</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>A1</td>
<td>14%</td>
<td>0.9%</td>
</tr>
<tr>
<td>A2</td>
<td>16%</td>
<td>0.95%</td>
</tr>
<tr>
<td>A3</td>
<td>18%</td>
<td>1.00%</td>
</tr>
<tr>
<td>B1</td>
<td>16%</td>
<td>1.10%</td>
</tr>
<tr>
<td>B2</td>
<td>18%</td>
<td>1.20%</td>
</tr>
<tr>
<td>B3</td>
<td>19%</td>
<td>1.45%</td>
</tr>
<tr>
<td>C1</td>
<td>18%</td>
<td>1.70%</td>
</tr>
<tr>
<td>C2</td>
<td>19%</td>
<td>1.95%</td>
</tr>
<tr>
<td>C3</td>
<td>20%</td>
<td>2.20%</td>
</tr>
</tbody>
</table>
Borrower Demographics - Unserved Markets

**SME**
- Avg Sales IDR 15 bio per year
- Avg 3 yrs established
- Avg # employees 25
- Services based industry – No collateral

**Consumer**
- Avg age 25 years old
- Avg 2 years employment
- Avg salary IDR 7 mio
- Avg loan IDR 10 mio

**Overall Portfolio by Industry**
- Creative
- FNB
- Outsourcing
- IT Services
- Telecommunication
- Logistics
- Construction Interior Design
- Construction
- CME
- Engineering

**Loan Purpose**
- Perbaikan Rumah
- Pendidikan
- Modal Usaha
- Liburan dan Travel
- Biaya Pengobatan
- Kendaraan Bermotor
- Lainnya
Lenders Demographics - Millennial Investors

**Lender**

Nationwide

- Age 21-74
- Avg age 33 years old
- 80% : 20%, Male : Female

### Gender

- Male: 80%
- Female: 20%

### Age

- 18 - 25: 21%
- 26 - 35: 17%
- 35 - 45: 9%
- 46 - 50: 9%
- Others: 5%

### Lender Distribution

- DKI Jakarta: 51%
- Tangerang: 6%
- Bekasi: 4%
- Depok: 3%
- Bandung: 9%
- Surabaya: 4%
- Others: 3%
Traditional P2P Lending Integrated Supervisory

- Financial Institutions
- Credit Bureau
- Borrower
- Insurance
- Funds Disburse
- Bank
- Credit insurance enhancement
- Credit Information
- Agreement
- Lender
- Funds Allocated
- Otoritas Jasa Keuangan
Open API (Application Programming Interface)
Fintech Architecture

Agreements
Blockchain

Tokopedia
Lazada Group
Go-Jek
Borrower

Investree
Credit insurance enhancement

Insure-Tech

Payment + Collection Gateway

Midtrans
Funds Disburse

Funds Allocated
Lender

Go-Pay
Doku
Telkomsel
C-Dash
## Unique Proposition: Banks vs Fintech

### Table: Type of Products, Duration of Loan Products, Target Customers, Operational Strengths

<table>
<thead>
<tr>
<th></th>
<th>Banks</th>
<th>P2P Lending</th>
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</thead>
<tbody>
<tr>
<td><strong>Type of Products</strong></td>
<td>Traditional working capital &amp; investment loan products</td>
<td>Innovative products (e.g. MCA, POS Financing)</td>
</tr>
<tr>
<td><strong>Duration of Loan Products</strong></td>
<td>Long (2+ years)</td>
<td>Short (&lt;2 years)</td>
</tr>
<tr>
<td><strong>Target Customers</strong></td>
<td>Prime Borrowers with strong credit rating</td>
<td>Credit-worthy borrowers outside or within the banking system</td>
</tr>
<tr>
<td><strong>Operational strengths</strong></td>
<td>Offline distribution channel, transactions via banking system &amp; operational scale</td>
<td>Technology, innovative credit assessment &amp; electronic transactions</td>
</tr>
</tbody>
</table>

### Diagram 1: New World brings real threat to incumbent banks

**Old World** ...

- Challenger Bank: Restricted due to scalability issues
- Fintech Startup: Restricted due to regulatory barriers
- Incumbent Bank: Threat is there but it is a weak attack

**... New World**

- Challenger Bank: Converge to Credible Challenger
- Fintech Startup: Now, the threat is real
- Incumbent Bank: Source: DBS Bank
How banks & fintech can collaborate

Case Study
- Chase x OnDeck Partnership 2016

**Strategy**
- Arm’s-length
- Partnership
- Build or buy
- Long-tail

**Deal Rationale**
- Offer smaller dollar loans with faster processing times
- Opens / expands digital origination channel to complement branches
- Limits technology investment and accelerates time-to-market
- Consistent with desire to grow small business lending market share (now ~8%)

"By combining Chase’s relationships and lending experience with OnDeck’s technology platform, we’ll be able to offer almost real-time approvals and same- or next-day funding."

– Jennifer Piepszak
Head of Business Banking, JPMorgan

"Most banking execs now see that lending is moving online. Banks have a choice. They can build their own technology, or they can recognize that companies like OnDeck have already invested in it."

– Noah Breslow
CEO, OnDeck
Awards

BEST CASH MANAGEMENT SOLUTION

Category
New Economy Solutions

In Collaboration with
Danamon

Awarded by
Treasury, Trade, Supply Chain, and Risk Management Awards 2017
#Semuabisatumbuh

Edwin Tanu Teintang  
**Lender**  
Investree has become a simple and quick funding solution with competitive return. Really a good alternative investment.

Jessica Sidarta  
**Lender**  
By far, the only peer-to-peer lending platform in Indonesia I’d trust my money on. No hidden fee, no hassle.

Farliando Roeslan  
**Borrower**  
Peer-to-peer lending that one of a kind. With invoice financing scheme, seems simple and easy to borrow. Fully helped by friendly service team.

Ananda Aryaguna  
**Lender**  
As a lender, I must admit that the process is simple and secured, giving me a high level of comfort in lending my money. Good job, Investree!
Key Takeaways

- Investments into Indonesian Fintech will continue to rise
- Balancing supervision with innovation, agility, and speed
- Collaboration is key to success
- Winners take all