

Igniting the alternate funding scene in Malaysia

Higher interest rate returns, monthly compounding effect top attractions for P2P financing

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Although P2P financing is still very much in its infancy in Malaysia as compared to its ASEAN neighbours, notably Singapore and Indonesia, it is rapidly developing.

Interest rate returns that can reach as high as 14% per year have been the biggest attraction for investors to participate in peer-to-peer (P2P) financing platforms, the inaugural investor survey undertaken by Funding Societies Malaysia (FSM) indicates.

Commenting on its inaugural survey FSM co-founder and CEO Wong Kah Meng says, "Being the leading P2P financing platform, with a market share of more than 50% in terms of amount disbursed, and a registered P2P financing operator with Securities Commission Malaysia (SC) puts FSM in a good position to examine pull-factors of Malaysian investors towards the P2P financing platform."

Overwhelming response from millennials

A total of 89.7% of the respondents believe that investing in P2P financing platform via FSM has met their expectations while 76.6% of the respondents express satisfaction.

As to how much of their overall investment portfolio has been allotted towards P2P financing via FSM, a majority 69.2% of respondents answered '20% and below' while another 14.5% set aside between 21% and 40%.

As a branding gauge, 79.5% of the respondents say they are likely to recommend FSM to their friends, while another 15.2% of the respondents remaining neutral.

Launched in early 2017, FSM is the first and currently largest P2P financing platform in Malaysia. The P2P financing platform connects small and medium enterprises (SMEs) with investors through an online marketplace, thereby increasing access to financing for SMEs.

FSM also has a presence in Singapore and Indonesia where it is known as Modalku, thus emerging as one of the largest digital financing platforms in Southeast Asia. Both FSM and Modalku have reached a total of more than RM1.5 billion in disbursed working capital to SMEs in Southeast Asia since establishment.

A total 42.1% of the respondents



(From left) MicroLeap COO Matthew Noel Fernandez, Tunku Danny Nasaifuddin

of the survey or 565 respondents who participated in the survey cited high interest rate offerings which exceeds that of conventional fixed deposits between 3.5% and 4% per annum (pa) and even the Employees Provident Fund (EPF) dividend between 6% and 6.5% pa as the top reason why they invest in P2P financing.

Alongside the high-interest returns respondents also cited that the monthly compounding effect at 12.8% and short-term tenure at 12% were also pull factors of P2P financing.

"Our survey clearly highlights the ever-changing Malaysian investment landscape in which preferences of new generation investors, mainly the millennials, are investing in P2P financing due to the many desirable pull-factors such as high-interest rates, monthly compounding effects, and short-term tenure," he acknowledges.

"Besides that, a stringent due diligence process undertaken by P2P financing platforms on SMEs further helps to uplift investors' confidence," he adds.

According to Wong P2P financing appeals more to the millennial

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— **Tunku Danny Nasaifuddin**

generation and is backed by the fact that millennials make up 70% of FSM's investor portfolio. A majority of P2P investors that are pushing the market are young millennials that are text savvy and want everything to be online."

"Our ultimate aim is to ensure good investment opportunities are made available to investors and at FSM, we strive to keep our default

rate low - the current rate is around 1%. Despite our low default rate and high-interest rate returns, we always encourage our investors to never cease diversifying into different notes and asset classes," he adds.

Interestingly, 79.3% of the respondents unanimously picked P2P financing platform as their preferred investment option, followed

by stock market (63.2%), real estate investment trust (41.1%), property (34.5%) and unit trust (32.6%).

New operators on the block

"Out of the 25 applicants vying for the P2P financing operator registration the SC only approved five - all from different sectors and segments within the economy that are not in direct competition with existing and new operators," MicroLeap PLT (MicroLeap) CEO Tunku Danny Nasaifuddin Mudzaffar tells MALAYSIA SME®.

The first six P2P operators did a great job of opening the market, this batch of five will hopefully push this further on and really grow the market from start-up to scale-up mode, he observes.

"MicroLeap solely focuses on the micro finance sector enabling financing between RM1,000 and a maximum of RM50,000, that's our sweet spot. We offer both conventional and Islamic notes based on commodity Murabaha, there is no difference in profit or interest rates between the two as we are absorbing the brokerage fee," he elaborates.

"With operators already offering insurance payment financing and supply chain financing, the SC wanted to ensure that different segments of the economy were covered. What sets us apart is that we provide all our issuers (borrowers) personal accident insurance at no extra cost," he says.

"In the event the business owner or key person suffers permanent or partial disability or even dies, the full outstanding amount is covered by our insurance partner and we pay out to all the P2P investors. So it is huge relief for the principal partner and his family," he adds.

Thus the issuers can focus on what they do best and grow their businesses. MicroLeap also provides basic debt management training and accounting to all issuers to ensure they are responsible and know how to manage the finances.

According to him, MicroLeap is the only P2P operator that is involved in both Islamic and conventional investment notes. Aiming to go fully live this August 1, 2019, the beta platform is already online and the first 50 beta investors will receive RM10 credit to their available balance.

"As for beta issuers the first 10 issuers get RM50 application fee waiver. The beta platform enables us to test the system as it involves live funds and helps us test and fine-tune the back end of the ►