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Is information transparency important for funders? A case study of sharia P2P lending companies in Indonesia

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Abstract
Research aims: This study explores the importance of information transparency for funders as parties who provide funding to borrowers' projects. It also analyzes information transparency practices in sharia P2P lending.
Design/Methodology/Approach: The study used a qualitative case study, focusing on three sharia P2P lending companies in Indonesia. Data were collected through interviews with parties from three sharia P2P lending companies and 11 funders.
Research findings: It was found that information transparency is important for funders, increasing their confidence to invest. In addition, based on multiple agency theory, there is information asymmetry between funders and sharia P2P lending borrowers, which can be reduced by information transparency measures from funders, sharia P2P lending, and borrowers based on cost-benefit considerations.
Theoretical contribution/Originality: This research explores the application of information transparency in sharia P2P lending companies, which, as far as researchers are concerned, has not been raised in previous studies. In addition, the study builds a conceptual framework of information transparency in sharia P2P lending companies based on multiple agency theory.
Practitioner implication: The research has implications for applying information transparency in sharia P2P lending, which can improve information updates and communication from sharia P2P lending to its funders.
Research limitation/Implication: The study only focused on three out of the seven sharia P2P lending in Indonesia. Therefore, the differences in business, focus, and other characteristics of the remaining four were not considered.
Keywords: Information Transparency; Multiple Agency Theory; Information Asymmetry; Sharia P2P Lending; Funders

Introduction

Good corporate governance is necessary to achieve corporate goals and manage stakeholder relationships (Khan, 2011), meeting their diverse interests. One of the principles of good corporate governance is information transparency. According to the Extractive Industries Transparency Initiative (EITI) referred to in Dashwood, Idemudia, Puplampu, and Webb (2022, p. 2), transparency is 'openness and public disclosure of activities,' while accountability is 'the obligation of an individual or organization to account for its activities to accept responsibility for them and to disclose results in an open manner.'

Like any other company, information transparency is crucial for sharia P2P lending companies. More so because they are exposed to high default risk, cybercrime risk (fraud risk, misuse of customer data, customer data security, signature forgery), moral hazard, and other risks (Mutamimah & Robiyanto, 2021).

Among the cases related to such risks was the case of default experienced by TaniFund, a P2P lending company in Indonesia which suffered a default of IDR 14 billion (Arini, 2022). This case arose when lenders discovered several irregularities related to their agreement and TaniFund. For instance, TaniFund did not provide transparent information to the lenders, especially about the farmers who received the loan funds, their contacts, the funds that have been realized to the borrowers, their bank accounts, and the rate of return. Mediators from TaniFund revealed internal fraud and crop failures that resulted in TaniFund defaulting on payments to lenders.

For another example, in other countries such as China, based on MDZJ data, in mid-2019, the total number of platforms that defaulted and ran away with lender money (fraud) was 5,774 out of 6,618 platforms (Gao et al., 2021). One example of a fraud case from P2P lending in China is the Ezubao platform, founded in 2014. In early 2016, the media reported that the Ezubao platform defrauded lenders of RMB50 billion ($8 billion), and 20 people from within Ezubao were arrested for fraud (He & Li, 2021). The investigation showed that the founder of Ezubao had used the lenders' money to buy luxury goods and fled with the lenders' money to an unknown place (He & Li, 2021). The default and fraud cases in Tanifund and Ezubao indicate that information transparency is vital for P2P lenders to scrutinize the operational performance of the P2P lending companies to which they entrust their funds.

Information transparency is also essential in reducing information asymmetry (Ge et al., 2017; Prystav, 2016; Wang et al., 2020) and moral hazard (He & Li, 2021; Zhu, 2018) in P2P lending operations. Information transparency is implemented by improving the quality of information disclosure to reduce the failure rate of P2P lending platforms (He & Li, 2021). In addition, more detailed financial information about borrowers and other voluntary disclosures positively affects the increase and success of funding and reduces interest rates (Bachmann et al., 2011; Basha et al., 2021). Therefore, information transparency plays an important role in sharia P2P lending, especially as a signal to enhance funders' trust (Chen et al., 2022).

Sharia P2P lending is a platform that acts as an intermediary between funders and borrowers (Atz & Bholat, 2016; Bachmann et al., 2011) based on sharia principles. It is an alternative form of financing for underserved and non-bankable small and medium enterprises (MSMEs). In Indonesia, it continues to experience development year after year. As of August 2022, seven companies were licensed as sharia P2P lending with the Financial Services Authority (OJK), with total assets of IDR 120.14 billion (OJK, 2022).

As little research has previously been conducted in this area, this study focuses on sharia P2P lending companies. Such research is hoped to increase the development of sharia P2P lending companies, which currently are few compared to conventional P2P lending companies. Research on sharia P2P lending companies is also unique because such companies' characteristics differ from those of their conventional counterparts. The main difference between sharia and conventional P2P lending concerns sharia principles and the contract (*aqd*) used for transactions to bridge the funder and borrower; the funder does not receive interest but instead receives a return (profit sharing) from placing his funds with sharia P2P lending.

Like most other companies, sharia P2P lending companies also experience agency conflicts (Jensen & Meckling, 1976), which lead to information asymmetry. In the context of this study, what is meant by the principal in sharia P2P lending is the funder, who hopes to receive returns (profit sharing) according to the agreement, while the agents are P2P sharia lending and borrower, who display opportunistic behavior that prioritizes their interests. In this case, information asymmetry exists between the funder (as the principal), the sharia P2P lending company, and the borrower (as agents). The funder hopes to obtain complete information about the borrower's situation, while the agent tends to restrict performance information from the borrower, including any incidence of default. Therefore, transparency in information disclosure, such as adequate financial reports (Sánchez-Ballesta & Lloréns, 2010) and communication between sharia P2P lending companies and funders, is necessary to reduce information asymmetry that occurs.

Previous research has examined the relationship between information disclosure in P2P lending and funding success and default rates (e.g., Chen et al., 2022; Ge et al., 2016; Michels, 2012; Wang et al., 2021) and information asymmetry in P2P lending (such as Linet al., 2013; Riggins & Weber, 2017; Wei et al., 2020; Yan et al., 2015). However, previous studies have not examined how information asymmetry and information transparency practices occur in sharia P2P lending. In addition, they have employed quantitative methods through regression (e.g., Chen et al., 2022; Ge et al., 2016; Michels, 2012; Wang et al., 2021) rather than exploring actual information transparency practices in P2P lending. In the Indonesian context, Rahadiyan and Mentari (2021) and Saputra (2020) have researched information transparency. Still, both used a regulatory or statutory approach instead of exploring information transparency related to specific P2P lending objects.

This study, therefore, analyzed the importance of information transparency from sharia P2P lending companies for funders. It also analyzes and evaluates the extent to which sharia P2P lending companies reveal information transparency practices to funders. Previous research has found that platforms that are more transparent or have a high level of information disclosure are associated with lower loan default rates (He & Li, 2021; Michels, 2012), increased likelihood of funding (Chen et al., 2022), and improved creditworthiness (Ge at al., 2016). In addition, transparency and information disclosure in P2P lending reduce information asymmetry problems (Ge et al., 2017; Prystav, 2016; Wang et al., 2020). Nevertheless, Chen et al. (2022) found that an increase in the amount of voluntarily disclosed information increases the probability of loan default, indicating the possibility of information manipulation by borrowers. Thus, this research is important to analyze the extent of information transparency carried out by sharia P2P lending, whether the information disclosed is the actual condition in the company, and the cost-benefit of disclosing the information. This study is unique because there has been no prior research with a qualitative approach exploring how information transparency is implemented in sharia P2P lending.

Moreover, this research used a qualitative approach through case studies of three sharia P2P lending companies in Indonesia. Such an approach was chosen to evaluate the practice and implementation of information transparency in sharia P2P lending. Evaluation research evaluates case studies using a modified theory (Mudjahidin et al., 2021). Based on previous studies, it can be concluded that evaluation and exploratory research using qualitative case studies are still rarely conducted on the practice of information transparency in sharia P2P lending, as current research on such transparency mostly employs quantitative methods. Meanwhile, the three sharia P2P lenders were chosen because they have the same funding objects (borrowers) which are small and medium enterprises.

The results of this study indicate that information transparency is important for funders in increasing their confidence to invest. If sharia P2P lending is less transparent or does not convey certain information, funders' confidence in investing in such sharia P2P lending companies will decrease. In addition, based on multiple agency theory (Arthurs et al., 2008; Calvo & Calvo, 2018; Hoskisson et al., 2013), there is information asymmetry between funders and sharia P2P lending companies and borrowers, which can be reduced by measures of information transparency from the three parties based on cost-benefit considerations. Due to such considerations, information asymmetry exists between funders and sharia P2P lending companies and borrowers, such as the personal data protection law. If sharia P2P lending companies violate this, they will be subject to sanctions according to the law, resulting in additional costs. However, the information asymmetry can be minimized in another way, namely by increasing the trust of funders through the success of projects. If funded projects continue to be successful, funders will tend not to demand more information from sharia P2P lending companies. It is in accordance with the results of research by Gonzalez (2022), who found that successful loan applications increased lenders' offers sufficiently to increase the loan amount requested.

Further, this research contributes to the research gap in several ways. First, it discusses information transparency in sharia P2P lending; no previous studies have discussed this with sharia P2P lending objects. Second, using multiple agency theory, the study builds a conceptual framework for information transparency in sharia P2P lending. Third, it explores the opinions of funders on sharia P2P lending, how important information transparency is for funders, and the current practice of transparency in sharia P2P lending information to funders, which has not been previously studied, as research has focused on processing quantitative data. This research is also important, considering that research on P2P lending objects, especially related to transparency and information disclosure, is still limited. Thus, this research can be a reference for further research to explore further information transparency in other P2P lending, both conventional and sharia P2P lending.

Practically, this research can be a reference and motivation for P2P lenders to implement transparency and information disclosure and improve communication with funders.

The remainder of the paper proceeds as follows. Section 2 reviews the related literature, theory, and research questions. Section 3 describes the research approaches, data collection methods, object selection methods, and data analysis methods, while section 4 presents the results and discussions. Finally, the paper is concluded in section 5.

Literature Review and Hypotheses Development

Multiple Agency Theory

According to Jensen and Meckling (1976), an agency relationship is a contract in which the principal engages another person (agent) to perform services on their behalf, which involves delegating some decision-making authority to the agent. The theory has been widely used in the literature. Simply put, one principal and one agent are bound by a joint contract and have different interests (Jensen & Meckling, 1976). In multiple agency theory, there is a conflict of interest between more than one group of agents when at least one is connected to a different principal (Arthurs et al., 2008; Hoskisson et al., 2013). In traditional agency theory, agency conflict occurs when a principal who is a shareholder hopes that the company will continue to operate in the long term to benefit shareholders. At the same time, the agent is a manager with opportunistic and self-interested behavior or who maximizes their wealth by concentrating on goals in the short term (Jensen & Meckling, 1976). Meanwhile, the multiple agency theory has different elements from traditional agency theory, which indicates the source of conflict that arises in the context of certain multiple agencies (Hoskisson et al., 2013). First, at least one of the parties becomes both a principal and an agent in a focal situation (Hoskisson et al., 2013). For example, in the context of an initial public offering (IPO), Arthurs et al. (2008) identified that managerial agents (inside directors) who are also principals monitor other agents and venture capitalists as principals for the companies in which they invest are also agents for investors in their venture capital funds.

Second, there is the potential for goal incongruence between actors in a focus situation in which incentives support the actors in maintaining relationships beyond the focus situation (Hoskisson et al., 2013). For instance, in an IPO, there are incentives between the venture capitalist and the underwriter to maintain a long-term relationship that goes beyond (and can undermine) the IPO focus agreement (Hoskisson et al., 2013). Third, there are third parties who can moderate the traditional relationship between the principal and agent, which adds to the complexity of the contractual agreement between them. As examples in the context of corporate social responsibility, Calvo and Calvo (2018) argued that there is an institutional interest, namely, in this case, the Spanish government (principal) in protecting its citizens from illegal immigration, thereby reducing the risk of opportunistic behavior of foreign employees, and at the same time, influencing the costs of international transfer agreements between the company (principal) and employees (agents).

In the context of sharia P2P lending, there are three different types of actors in multiple agency relationships: (1) sharia P2P lending companies, who act as agents who bring together funders and borrowers; (2) the funder as the principal, who provides funds to fund projects; (3) the beneficiary of funds as an agent, who manages funds and returns these and yields at the end of the agreement period to the funder. In acting as the principal, the funder hopes to receive the return according to the agreement, while the borrower, an agent, shows opportunistic behavior that prioritizes his interests. Besides, agents have more information regarding their willingness to fulfill their mission appropriately or related to performance (Rouault & Albertini, 2022). Consequently, sharia P2P lending plays a role in fairly bridging information between funders and borrowers.

In this case, there is information asymmetry between the funder (as the principal) and the sharia P2P lending companies and the borrower (as the agent), in which the funder expects to obtain complete information about the borrower's situation. In contrast, the agent tends to restrict performance information from the borrower, including any incidence of default. Therefore, corporate governance mechanisms include information transparency through disclosure, such as adequate financial reports (Sánchez-Ballesta & Lloréns, 2010) and communication between sharia P2P lending companies and funders, which are needed to reduce the information asymmetry. Sharia P2P lending companies can also use disclosure to attempt to build their reputation and gain trust (Sánchez-Ballesta & Lloréns, 2010) from funders.

Legitimacy Theory

According to Suchman (1995, p. 574), what is meant by legitimacy is "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions." Suchman then divides legitimacy into three levels: gaining, maintaining, and repairing legitimacy. Gaining legitimacy is an action taken by an organization to gain status legitimacy when starting a new line of activity elsewhere in the social order. Meanwhile, maintaining legitimacy is necessary to maintain stakeholder relationships because their needs and desires change over time (O'Donovan, 2002). In this case, organizations need to observe or anticipate change and protect past achievements to maintain legitimacy (O'Donovan, 2002).

Finally, repairing legitimacy is undertaken to rebuild a company's reputation following a legitimacy crisis. In this process, the company can pursue a strategy by which the manager may first try to deny the problem, hoping to allay the public's pragmatic concerns until the organization can collect side payments as compensation. Second, managers may choose to excuse the problem by questioning the moral responsibility of the organization. However, this second strategy, which often involves blaming individual employees or external authorities, also has a double side, indicating a lack of managerial control (Suchman, 1995). Third, managers may attempt to justify the disturbance by redefining the means and ends retrospectively to make the disruptive event appear to conform with prevailing moral and cognitive beliefs. Fourth, they can retain some cognitive legitimacy simply by explaining disturbing events in a way that maintains an otherwise supportive worldview.

In this study, legitimacy is needed to increase trust from stakeholders, especially funders, because it can influence investment decisions (Klein et al., 2021). If P2P lenders do not follow social rules and norms and lack legitimacy, they will lose stakeholder trust. Here, information transparency is a means to increase stakeholder trust, especially funders, for P2P lending companies to gain legitimacy. Information transparency is also an act of P2P lending companies to maintain legitimacy. In this case, P2P lending companies that have gained the trust of funders in financing borrower projects strive to maintain that trust by providing the information needed by funders in project funding. On the other hand, information transparency can also be a means of improving legitimacy. For example, if P2P lenders do not disclose funding projects that default, which then makes funders' trust decline, information transparency on default conditions and what efforts the company makes to overcome them will become important to improve its reputation after a legitimacy crisis.

Information Transparency and Disclosure

Granados et al. (2010) define information transparency as the availability and accessibility of market information to participants. It implies that the quantity of information available and the quality of the interface to make it accessible are vital. Kuruppu et al. (2022) also explain that transparency makes what is blurry and hidden from view visible and open. Hence, improving the quality of information disclosure can reduce the failure rate of P2P lending platforms (He & Li, 2021), given that more transparent platforms tend not to commit fraud or engage in other illegal actions. Information quality refers to the funder's perception of the accuracy and completeness of the information provided by the borrower in his loan register (Chen et al., 2014). Information transparency in the form of hard and soft information has also been shown to reduce information asymmetry on US and Chinese platforms (Chen & Han, 2012).

In this regard, trust is a key aspect that determines the success of funding, but the perceived quality of information can reduce perceived risk and increase trust in the platform (Basha et al., 2021). More detailed financial information about borrowers and other voluntary disclosures positively affects the increase and success of funding and reduces interest rates (Bachmann et al., 2011; Basha et al., 2021; Chen et al., 2014). The quality of loan listing information serves two purposes. First, it facilitates the funder's assessment of the feasibility of the request. Information for this purpose includes the loan amount, duration, and interest rate/yield. Second, the quality of information serves as a proxy for assessing the credibility of borrowers. High-quality listing information reflects how serious, sincere, and professional the borrower is, influencing the funder's trust in them. High-quality requests indirectly reflect the borrower's ability to understand and implement the proposed plan using the loan, making them more trustworthy. It is more effective for borrowers to gain the trust of funders by providing high-quality information about their loan requests than by building social capital when there are no strict screening procedures for social network membership in loan intermediaries (Chen et al., 2014).

Like conventional P2P lending, funders' trust in sharia P2P lending must also be built so that funders continue to invest in sharia P2P lending. Information transparency in sharia P2P lending is needed by funders to determine the condition of the project being funded and the probability of default that might occur. In addition, since sharia P2P lending operates based on sharia principles, Islamic accountability is attached to it. Islam has a stronger and more effective basis for ethical values because the rights and obligations of individuals and organizations concerning others are clearly defined by religion and are not subject to personal views (Saad et al., 2014). Moreover, in the Islamic context, accountability involves one's relationship with Allah (*hablum minallah*) and other humans (*hablum minannas*) (Kamaruddin & Auzair, 2020). Therefore, one of the responsibilities to Allah is carried out by being accountable to stakeholders. One of these responsibilities is to carry out information transparency to stakeholders, especially to funders.

RQ1: *How important is information transparency from sharia P2P lending companies to funders?*

Bachmann et al. (2011) conducted a literature review to provide insight into how these determinants influence the likelihood of a borrower obtaining successful funding, the final interest rate to be paid, and the relationship between borrower characteristics and loan success. Bachmann et al. (2011) then revealed that information asymmetry is a fundamental problem in online P2P lending. Such lending faces the challenge of overcoming the principal-agent problem, in which the funder wants to obtain as much valid information about the borrower as possible. In contrast, the borrower may be interested in hiding some of their characteristics to secure the lowest possible interest rate. To enable funders to make decisions based on valid information, P2P lending platforms force borrowers to provide financial information that an external agency has validated. An overview of the borrower's financial characteristics provided to the funder is the main indicator of creditworthiness. In addition, many platforms ask users to provide demographic information, such as gender, race, or age. Borrowers are also often allowed to provide social information that cannot be validated. This information is a determinant characteristic of loans in P2P lending since it has a major influence on the successful funding of the borrower's loan list and the interest rate requested.

Other research related to transparency and information disclosure was conducted by Chen et al. (2022), Ge et al. (2016), Michels (2012), and Wang et al. (2021). Chen et al. (2022) found that voluntary disclosure significantly increased the funding success rate. It is supported by research by Wang et al. (2021), who uncovered that higher information disclosure reduced information asymmetry in the online P2P lending market and was associated with a significantly lower risk of default because it revealed the default risk of P2P platforms. In addition, social media information could also be a signal of creditworthiness and a predictor of the probability of default on P2P lending platforms (Ge et al., 2016). However, if the information disclosed is false or unverifiable, borrowers are more likely to default (Michels, 2012) as they may strategically disclose information for their interests, thus increasing the information loss faced by funders (Chen et al., 2022). Information transparency provided by online lending platforms also has an effective restraining effect on platform behavior and plays an important role in monitoring default and operational risk (Wang et al., 2021). Besides, disclosing information also affects funders by lowering the interest rates charged and increasing loan bidding activity (Michels, 2012).

Research related to information transparency in P2P lending in Indonesia was conducted by Rahadiyan and Mentari (2021) and Saputra (2020). Both discussed information transparency from the point of view of regulatory adequacy. Rahadiyan and Mentari (2021) examined the role of information disclosure as risk mitigation in P2P lending in Indonesia. They found that the regulation regarding information disclosure in the Financial Services Authority Regulation (POJK) No. 77/POJK.01/2016 is considered inadequate, considering that the information submitted is exclusive and limited to lenders because only certain parties can access the information. In addition, information related to the ongoing condition of the borrower during the lending process is also unavailable, which can lead to the risk of bad loans. Moreover, Saputra (2020) examined the application of the principle of financial information transparency in P2P lending within a protective legal framework. He unveiled that the arrangements in the POJK still have shortcomings and are insufficient to mitigate potential consumer problems regarding corporate financial information disclosure in P2P lending companies.

RQ2: *What is the current practice of information transparency in sharia P2P lending companies?*

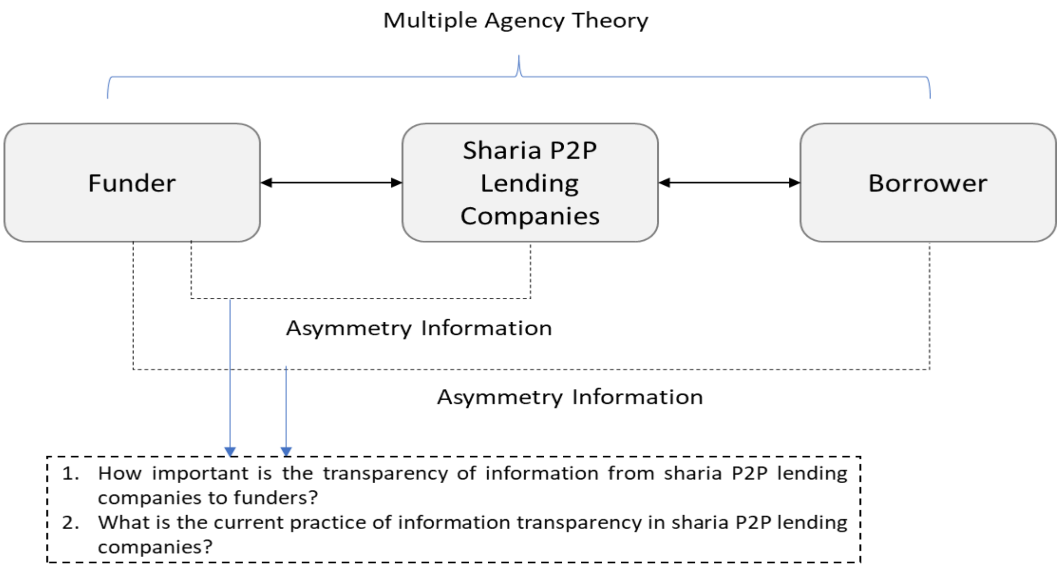

Figure 1 Conceptual Framework and Research Questions

Information Transparency in POJK No. 10 of 2022

In the Financial Services Authority Regulation (POJK) No. 10 of 2022 concerning Information Technology-Based Co-Funding Services, Article 30 states that P2P lending operators are required to provide an agreement between them and the funder, together with an agreement between the funder and the borrower, as outlined in an electronic document. The agreement document between the P2P lending provider and the funder should at least contain information regarding the agreement number, date of the agreement, the identity of the parties in the form of the name of the funder and the National Identification Number (NIK) of the funder, the rights and obligations of the parties, the amount of funding, the economic benefits of funding, the amount of commission, period, details of costs, use of personal data, fund collection mechanism, risk mitigation in the event of stalled funding/default, the dispute settlement mechanism, and the mechanism for settlement of rights and obligations if the operator cannot continue its operational activities.

Additionally, Article 31 paragraph 3, POJK No. 10 of 2022 also requires P2P lending companies to provide access to information to funders on the use of their funds, which should at least contain the final position of the funding, the intended use of the funds, the economic benefits of the funding, and the funding period. Then, Article 32, POJK No. 10 of 2022 requires P2P lending companies to provide access to information to funders on the position of funding received, which should at least contain the final position of the amount of funding, the economic benefits of the funding, and the funding period.

Research Method

A qualitative approach was employed through case studies of three sharia P2P lending companies in Indonesia. Such an approach was chosen because research exploring the practice and application of information transparency in sharia P2P lending is still limited. Then, case studies will further allow further exploration and in-depth analysis to answer the research questions and frameworks developed. According to Yin (1984), case study research is conducted for three reasons. First, the case can be critical for confirming, challenging or expanding theory. Second, the research can focus on an extreme or unique case, while third, the case can reveal and offer opportunities to investigate and analyze real-life situations that were previously inaccessible to researchers. This research conforms to the third reason given by Yin (1984), which is to conduct a case study to investigate and analyze transparency practices in sharia P2P lending companies that have not been previously studied.

This research design adopted the research design proposed by Bryman (2012): (1) formulating research questions; (2) selecting populations and samples; (3) recruiting interviewees; (4) designing interview questions; (5) collecting data; (6) completing and checking interview transcripts; (7) processing and analyzing data; (8) developing conceptual and theoretical frameworks; and (9) writing findings and conclusions.

The sample or object selection method employed was the purposive sampling method, a category of non-probability sampling. Purposive sampling is also a sample selection method used to obtain information from specific target groups (Sekaran & Bougie, 2013). Such sampling aims to select a case study sample relevant to the research question (Bryman, 2012). The type of purposive sampling used was judgment sampling, in which subjects were selected based on the research needs and expertise of the subjects being investigated (Sekaran & Bougie, 2013). Sharia P2P lending companies, the object of this research, included Sharia P2P Lending Company A, Sharia P2P Lending Company B, and Sharia P2P Lending Company C and their funders. Respondents from companies were recruited by sending letters requesting data and interviews for research. Meanwhile, funders respondents were recruited by sending texts via WhatsApp and Instagram as interview requests.

The data used were primary data obtained from semi-structured interviews. Interview questions were created based on references from the research of Granados (2010), Cavicchi (2022), Rouault (2022), Agyemang et al. (2009), and AFPI's guidelines for responsible information technology-based money lending and borrowing services. These were conducted with the CEO and CFO of Sharia P2P Lending Company A, the office management in managing risk department of Sharia P2P Lending Company B, the CEO of Sharia P2P Lending Company C, four funders of Sharia P2P Lending Companies A and B, three funders of Sharia P2P Lending Company C.

Respondents from companies were recruited by sending letters requesting data and interviews for research. Meanwhile, funders respondents were recruited by sending texts via WhatsApp and Instagram as interview requests. Tables 1 and 2 detail the interviewees. The interviews were conducted both online and face-to-face. The online interviews utilized Zoom, WhatsApp, Instagram calls, and Google Meet.

Table 1 List of Interviewees from the Sharia P2P Lending Companies

Interviewee Code	Interviewee	Gender	Company	Date of Interview
IA1	CEO	Male	Sharia P2P Lending Company A	October 31st 2022
IA2	CFO	Male	Sharia P2P Lending Company A	November 4th 2022
IB1	Office Management in Managing Risk Department	Male	Sharia P2P Lending Company B	November 25th 2022
IC1	CEO	Male	Sharia P2P Lending Company C	November 10th 2022

Related to that, online interviews offer greater possibilities for choosing the time and location of the interview with the interviewee and providing access to difficult-to-reach sources (Khan, 2022). Secondary data were also employed, obtained from applications or websites of the three sharia P2P lending companies, such as information disclosed on projects funded and agreement documents. Such data were used to strengthen the analysis and ensure the correctness of the information from the interviewees.

Table 2 List of Interviewees from Funders

Interviewee Code	Age	Gender	Sharia P2P Lending Company Funded	Date of Interview
FA1	30	Male	A	November 8th 2022
FA2	26	Male	A	November 24th 2022
FA3	30	Female	A	November 25th and 28th 2022
FA4	28	Male	A and B	November 30th 2022
FB1	25	Female	B	November 19th 2022
FB2	29	Male	B	November 19th 2022
FB3	23	Female	B	November 19th 2022
FB4	28	Male	B	November 21st 2022
FC1	24	Female	C	November 19th 2022
FC2	26	Female	C	November 21st 2022
FC3	24	Female	C	November 24th 2022

Data processing was then conducted using thematic analysis of the interview transcript data and focusing on identifying, analyzing, and reporting patterns (themes) in the data (Braun & Clarke, 2006; Dewi et al., 2021). Subsequently, the researchers coded to classify the data and filter the emerging concepts (Dewi et al., 2021). From this coding, the researchers then analyzed and interpreted the data and compared them with data analysis from information on the companies' apps or websites. The data that had been analyzed were then written down to conclude (Sekaran & Bougie, 2013).

Results and Discussion

The Importance of Information Transparency for Funders

Information transparency is one of the principles for building good corporate governance. As with companies in general, sharia P2P lending companies must also practice information transparency to protect funders. According to POJK No. 10 of 2022, transparency is openness in the decision-making process and openness in disclosing and providing relevant information about P2P lending companies that is easily accessible to stakeholders. Transparency for funders who invest their money in sharia P2P lending to fund projects of borrowers is crucial to increase the trust of funders and maintain the reputation of sharia P2P lending. It is in accordance with the research of Klein et al. (2021) and Klein and Shtudiner (2016), who found that trust is indispensable for high-risk financial instruments such as loans/funding from P2P lending platforms and influences one's investment decisions.

Moreover, P2P lending is online and not face-to-face, so funders can only rely on the information provided by P2P lending companies on their websites or apps. In addition, the party that communicates directly with the borrower is the sharia P2P lending company, so the funder, as the party providing the funds, should obtain information from the borrower through the sharia P2P lending company. In this regard, see the following interview excerpts from the respondent:

> "Transparent reporting is important to increase public trust because fintech P2P lending is not face-to-face, so transparent reporting is the main point of providing information as transparent as possible to the public." (Interviewee FA2, 2022)

Information transparency in sharia P2P lending is also considered essential by funders to understand the management of funds conducted by sharia P2P lending company. Besides, information transparency is also a measure of project success and a predictor of default (Chen et al., 2022; Ge et al., 2016). In this case, see the following interview excerpts from the respondent:

> "Transparent reporting is quite important to determine what Sharia P2P Lending Company B's financial management is like... For example, within one month or a certain period, the borrower should be notified of what the funds have been used for, and this information should be sent to the funder's email." (Interviewee FB1, 2022)

If the information submitted by the sharia P2P lending company to funders is more detailed, it will be better and show that the company is accountable. Related to that, see the following interview excerpts from the respondent:

> "If the information conveyed is more detailed for finance, it will be better because it shows that this company is more accountable." (Interviewee FB2, 2022)

Information transparency is also an added value for sharia P2P lending since it can be a medium to persuade the public to use sharia P2P lending (medium of *da'wah*), thereby increasing Islamic financial literacy in society. It is similar to what is mentioned in the research of Dahlifah and Sunarsih (2020) that in the context of Islamic banks, sharia information disclosure is a form of *da'wah* means carried out by Islamic banks a form of accountability to stakeholders. In this regard, see the following interview excerpts from the respondent:

> "Information transparency is also important as a medium of da'wah, where sharia fintech can be judged more transparent, more communicative, and more accountable so that it can become an added value for sharia to be better in the eyes of society." (Interviewee FA2, 2022)

Fundamentally, the trust of funders is vital for sharia P2P lending companies. Funders who believe in sharia P2P lending companies will continue investing with them. Therefore, information transparency is important for funders to increase such trust. Even if projects experience delays in payment or even a failure to pay, if this information is conveyed to the funder, in most cases, they will accept the situation. It is because the risk of default is on the funder; if they are not given such information, they will be disappointed and discouraged from investing again in the sharia P2P lending companies.

Information Transparency Practices in Sharia P2P Lending

In practice, each party involved in a funding transaction in sharia P2P lending has its interests. Funders have an interest in obtaining returns on the funding provided; sharia P2P lending companies, as intermediaries between funders and borrowers, have an interest in obtaining fees (*ujroh*) from borrowers for their representatives in seeking funds from funders; and the borrower has an interest in obtaining funding from the funder to finance their project. Due to these different interests, multiple agency problems arise in information asymmetry between funders, sharia P2P lending companies, and borrowers. On the one hand, sharia P2P lending companies and borrowers tend to limit the information provided to funders, but on the other hand, funders expect more information about the project from the borrower they are funding.

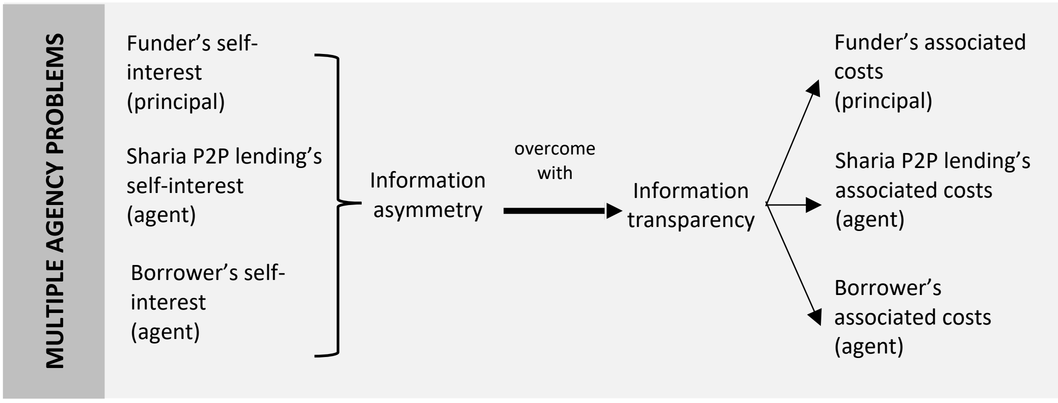

Figure 2 Conceptual Framework of Information Transparency: Multiple Agency Theory

The conceptual framework illustrated in Figure 2 depicts this situation from the perspective of multiple agency theory. The existence of information asymmetry between funders, sharia P2P lending companies, and borrowers can be reduced by measures of information transparency from sharia P2P lending companies and borrowers. However, in doing so, both need to consider the cost-benefit of disclosing certain information.

Figure 3 then shows the actions taken by each party regarding information transparency in sharia P2P lending and the costs incurred in connection with such actions. In current practice, sharia P2P lending emphasizes the project information provided to funders when they want to fund a project. Information about the project varies between sharia P2P lending companies. The three P2P lending companies, which are the object of this research, all provided information regarding the project description, the amount of funding required, the borrower's company profile, the expected rate of return (expected profit sharing) for the funder, the project period, and the guarantee provided by the borrower.

However, there was additional information provided by Sharia P2P Lending Companies A and B. Sharia P2P Lending Company A provided the name of the director of the borrower's company, who the payor is, the risks that the funder may face, the risk mitigation undertaken by the sharia P2P lending company, the flow of funding according to the contract agreed upon, and the flow of the disbursement of funder capital and profit sharing. Moreover, Sharia P2P Lending Company B provided a factsheet containing additional information regarding risk analysis and financial highlights from borrower companies. To ensure the correctness of the information and that the project was eligible for funding, the sharia P2P lending company conducted due diligence before accepting the project. Naturally, conducting the feasibility test requires sufficient, competent funds and resources.

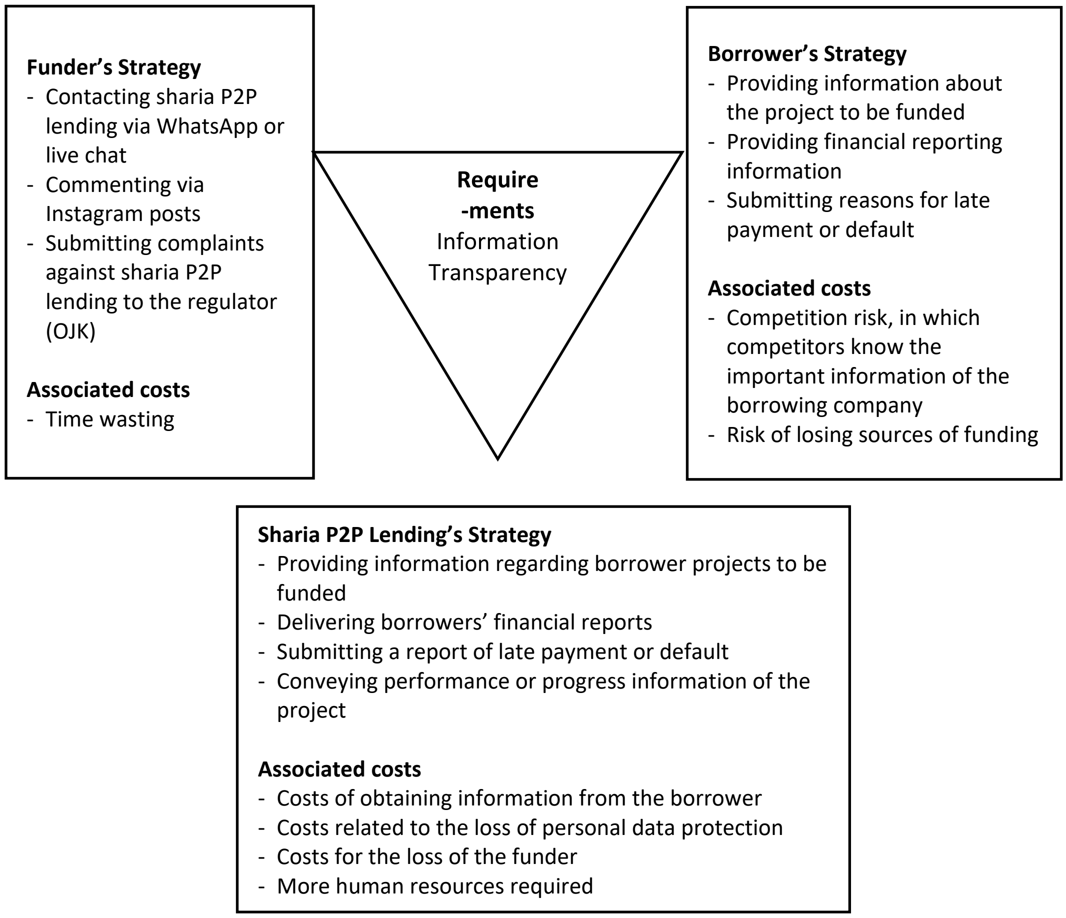

Figure 3 Strategies and Associated Costs of the Information Transparency of Principals and Agents

With an initial assessment or due diligence before the project is funded, it is hoped that the project funded by the funder is selected and that no default will occur, making the funder feel safe investing their money in the project. Therefore, sharia P2P lending companies think performance evaluation or project progress is unnecessary because the assessment or due diligence is already good. In this case, the funder only needs to wait for the return of the agreed principal and yield. However, only when problems with the project result in delays in payment or default will the sharia P2P lending company submit updated information to the funder. It is because if the sharia P2P lending company also evaluates the performance of each funded project by monitoring it at any time, additional resources and costs will be incurred, which would be considered less efficient.

On the other hand, funders expect progress information on each project they fund to know whether any obstacles are faced. In this regard, see the following interview excerpts from the respondent:

> "Information regarding project performance or progress is important so that we know the process of the project, whether or not there are any obstacles until the funds reach us again." (Interviewee FA4, 2022)

Regarding projects that experienced overdue payments, Sharia P2P Lending Companies A and B informed funders of such a situation, although sometimes they received this information late. On the other hand, if there had been a delay in payment or default on a project funded during the COVID-19 pandemic, Sharia P2P Lending Company C did not convey this information to the funder. In this case, see the following interview excerpts from the respondents:

> "Actually, before the pandemic, I was not concerned with Sharia P2P Lending Company C. Every time I withdrew money, it was always smooth; I think before the pandemic, the accountability of Sharia P2P Lending Company C was good... However, since Covid, I have been very concerned because, in my opinion, the Sharia P2P Lending Company C is less transparent and responsive. As this is a matter of money and investment, if, for example, the company is not responsive and the customer service is difficult to contact, there will be no update on the investment fund information; we must be confused; it is how the company is not very transparent." (Interviewee FC2, 2022)

> "There is no update when there is a default with Sharia P2P Lending Company C. For example, the maturity date passed once; it should have been paid three or six months ago, but it had not been returned until then, and there was no notification from Sharia P2P Lending Company C. I just found out that I failed to pay when I contacted Sharia P2P Lending Company C via WhatsApp, and even then it took a long time to reply, taking days. Moreover, there is no notification to investors about how to solve it. Even though we, as investors, know that investments like this are risky, investors should at least be informed. Currently, the principal funds have been returned, but no notification has been given." (Interviewee FC3, 2022)

The case of P2P Lending Syariah C is in accordance with the findings in previous research that transparency or information disclosure is negatively related to loan default (Michels, 2012), meaning that if transparency is lacking, a loan default will be high. In this study, there was no information or notification from Sharia P2P Lending Company C to funders that there had been a default on the project being funded, causing several funders to write comments via Google Reviews and Instagram on the Sharia P2P Lending Company C. It was only after pressure from funders that Sharia P2P Lending Company C started to provide updated information to them regarding default of the project and updates every month or every few months via email on such failure. It corroborates with legitimacy theory, in which when a company experiences a legitimacy crisis, it will try to repair its legitimacy (Suchman, 1995). In the context of Sharia P2P Lending Company C, legitimacy repair was conducted by trying to justify negligence in terms of not conveying the default information to funders, so the Sharia P2P Lending Company C redefined its methods and objectives retrospectively by submitting updated information to funders regarding defaults that had occurred, to obtain re-acceptance (legitimacy) from them. Related to that, see the following interview excerpts from the respondent:

> "Actually, after many negative comments, Sharia P2P Lending Company C has started to improve its reporting system. Thus, I have started regularly getting progress emails on how much the borrower has paid, how much-remaining debt they have not paid, and how about the future Sharia P2P Lending C action item. Sharia P2P Lending Company C has also started routinely conveying the latest conditions of project default. From the date of my emails, October, February, March, and April, they have started to send updates regularly once every month or two. Although there was no update on default in the past, since 2021, there have been updates. Every month, I routinely got information on stagnant financing yesterday. Therefore, they have improved their reporting system." (Interviewee FC2, 2022)

In the context of Sharia P2P Lending Company A, in addition to project progress, information it did not convey but which was needed or questioned by the funder included the financial statements of borrowers during the project funding campaign concerned; information about a similar experience of the borrower related to the project; information regarding the deduction of a certain nominal amount from the payment of a refund to the funder on several projects; detailed information regarding the borrower's guarantee. Regarding the borrower's financial statements, Sharia P2P Lending Company A stated that they did not submit borrowers' financial statements because of provisions regarding data protection. In addition, Sharia P2P Lending Company A thought that if the borrower's financial statements were provided through their website, it would be a risk of competition, with competitors able to function as if they were funders wanting to analyze the borrower's financial statements to obtain information on their financial situation. Therefore, Sharia P2P Lending Company A limited the provision of borrowers' financial reports to funders who provided large funds. In this case, see the following interview excerpts from the respondent:

> "Financial reports of borrowers are not published on websites or applications because we simply talk about data protection; not all borrowers are comfortable being exposed... Except for super funders, such as banks or from large companies who have agreed from the start that if we have a campaign later, we were asked to provide all the documents we received, including financial reports." (Interviewee IA1, 2022)

Regarding Sharia P2P Lending Company B, apart from information about project progress, other information not provided by them but was required by the funder comprised the agreement between the funder and the borrower (including a detailed explanation of the contract used); detailed information regarding collateral and insurance (if any); the average timeliness of borrowers in making payments to Sharia P2P Lending Company B; information on how often borrowers use their services; detailed information on late payments, such as why there are delays in paying and what efforts are made by Sharia P2P Lending Company B for the settlement of the late payment. In this regard, see the following interview excerpts from the respondent:

> "The expected information, for example, from the beneficiary of funds or payor concerns the obstacles faced, why they cannot pay, and when they can pay it off. In the past, Sharia P2P Lending Company B once gave me information. However, it was the 15th due date, but

> it had not been paid or returned. I got an email from Sharia P2P Lending Company B in which they said there would be a return on the 25th, but it turned out that on the 25th, there was no return until the 29th when there was a return. So inconsistent." (Interviewee FB4, 2022)

Sharia P2P Lending Company B also limited borrowers' personal information from being submitted to funders due to personal data protection provisions. It aligns with Klein (2021), stating that the existence of consumer protection laws makes it difficult for funders to contact borrowers directly, even in the event of default. On P2P lending platforms, funders cannot interact directly with borrowers through the system based on legal provisions and privacy policies. In addition, according to Sharia P2P Lending Company B, if the borrower's personal data was submitted to the funder, there was a possibility that there would be a horizontal conflict between the funder and the borrower if the borrower failed to pay. Such conflict involves the funder contacting the borrower directly to demand a return on the funds invested.

Information Transparency Practices for Funders Based on POJK No. 10 of 2022

POJK No. 10 of 2022 requires certain information items to be disclosed to funders. The first relates to the obligation of sharia P2P lending companies to provide two agreements to funders: the agreement between the funder and the sharia P2P lending company and the agreement between the funder and the borrower. Two agreements were provided by Sharia P2P Lending Company A, namely one between the funder and Sharia P2P Lending Company A with a *wakalah* contract and one between the funder and borrower with a *musyarakah* or *murabaha* contract. However, Sharia P2P Lending Companies B and C only provided one agreement, namely a power of attorney (*wakalah*) between the funder and sharia P2P lending companies. In this case, Sharia P2P Lending Company B discussed the best system to accommodate agreements between funders and borrowers without sacrificing the protection of borrowers' personal data. Meanwhile, Sharia P2P Lending Company C attempted to develop an agreement between funders and borrowers. The following Table 3 presents the transparency analysis of the agreement between the funder and sharia P2P lending company and the agreement between the funder and borrower provided by Sharia P2P Lending Companies A, B, and C, compared to the contents of the items required in POJK No. 10 of 2022.

Table 3 Analysis of the Transparency of Information in the Contents of the Agreement

POJK Item	Sharia P2P Lending Company A	Sharia P2P Lending Company B	Sharia P2P Lending Company C
Agreement between funders and sharia P2P lending company			
Agreement number	Yes	Yes	No
Date of agreement	Yes	Yes	Yes
Identity of the parties:			
Name and NIK of the funder	Yes	Yes	Yes

Table 3 Analysis of the Transparency of Information in the Contents of the Agreement (Cont')

POJK Item	Sharia P2P Lending Company A	Sharia P2P Lending Company B	Sharia P2P Lending Company C
Rights and obligations of the parties	Yes	Not stated in an explicit manner	Not stated in an explicit manner
Amount of funding	Yes	No	No
Benefit economy of funding	Yes	Percentage return not mentioned, only that the funder will receive a commission (*ujroh*) and/or profit (margin)	Percentage return not mentioned, only that the funder receives the return (profit sharing)
Amount of commission	No	No	No
Period	Yes	No	No
Cost details	In the form of a tax withholding clause	Yes (taxes and cost of services)	Yes (taxes and cost of services)
Use of personal data	Yes	Yes	Yes
The mechanism for funding billing	No	Yes	No
Mitigation risk when there is stalled funding/default	No	Yes	No
The mechanism for dispute settlement	Yes	Yes	Yes
The mechanism for settlement rights and obligations if the P2P lending cannot continue the operational activity	No	No	No
Agreement between funder and borrower			
Agreement number	Yes	There is no agreement document.	There is no agreement document.
Date of agreement	Yes		
Identity of the parties	Yes		
Rights and obligations of the parties	Yes		
Amount of funding	Yes		
Benefit economy of funding	Yes		
Installment amount	No		
Period	Yes		
Object guarantee (if any)	No		

Table 3 Analysis of the Transparency of Information in the Contents of the Agreement (Cont')

POJK Item	Sharia P2P Lending Company A	Sharia P2P Lending Company B	Sharia P2P Lending Company C
Related costs	Information related to the mandatory administration cost of cancellation paid by the borrower if there is a cancellation agreement		
Use of personal data	Yes		
Dispute settlement mechanism	Yes		
The mechanism for the settlement of rights and obligations in accordance with regulation and legislation provisions if the P2P lending cannot continue the operational activity	No		

Amongst the three sharia P2P lending companies studied, several items in POJK No. 10 of 2022 were not in the agreements they provided to their funders. For example, the three sharia P2P lending companies did not provide information regarding the amount of commission they received as representatives of the borrower in finding funders for a particular project. Another example regards the rights and obligations of each party. Regarding Sharia P2P Lending Companies B and C, these rights and obligations were not explicitly stated in certain parts, as in the agreement provided by Sharia P2P Lending Company A. However, they were attached to each article for other arrangements, for example, arrangements regarding the responsibilities of each party and ones regarding refunds. Nevertheless, regarding information, Sharia P2P Lending Company A was more detailed, providing information about the nominal amount of funds distributed by the funder concerned, the period, and the rate of return expected to be obtained. The weakness of Sharia P2P Lending Company A's agreement is that it did not include a funding collection mechanism nor risk mitigation in the event of bad funding.

Second, POJK No. 10 of 2022 also requires a P2P lending company to provide access to information to funders on the use of funds and the position of the funding received. The three sharia P2P lending companies in this research submitted information on their websites regarding the final position of funding; the purpose of using the funds reflected in the description of the project being funded; the economic benefits, referring to the expected rate of return obtained by the funder; the funding period. Therefore, in general, the three sharia P2P lending companies conveyed the information to funders required by the POJK; several items in the agreement need to be included based on the information items required in POJK No. 10 of 2022.

Conclusion

The study aimed to explore the importance of information transparency for funders as parties who provide funding to borrowers for projects and analyze information transparency practices in sharia P2P lending. It used a qualitative case study, focusing on three sharia P2P lending companies in Indonesia. The results indicate that information transparency from sharia P2P lending companies and borrowers is important for funders to increase their trust in funding borrower projects. In addition, information transparency in sharia P2P lending is essential for funders to establish the efficiency of fund management conducted by sharia P2P lending companies. Information transparency is also a measure of project success and a predictor of default. In the context of sharia P2P lending, transparency can also be a medium to attract the public to use such services, increasing Islamic financial literacy in Indonesia.

As for the current practice of information transparency in sharia P2P lending in Indonesia, there is a dilemma. On the one hand, lenders need certain information, such as financial statements from borrowers and progress reports on ongoing projects. Still, on the other hand, there are additional costs that sharia P2P lending companies must incur and regulatory restrictions, such as personal data protection laws, which require sharia P2P lending companies to protect borrower data. It denotes information asymmetry between lenders, sharia P2P lending companies, and borrowers. However, it can be minimized by increasing lender trust through project success. If the projects funded by funders continue to be successful, funders will be less likely to demand more information from sharia P2P lending companies.

The research has several implications. First, it provides a conceptual framework for the multiple-agency problem in P2P lending. Second, practically, it has implications for the practice of information transparency in sharia P2P lending, which is an important element in increasing funder confidence in funding or investing in borrower projects. If the company is not transparent, it will weaken the trust of funders and their intention to reinvest in sharia P2P lending. Therefore, transparency-related actions are needed to increase funder trusts, such as conveying the information needed by funders and smooth communication or fast responses from sharia P2P lending companies. Even though sharia P2P lending companies face borrowers' projects that are late in paying or fail to pay, it is not a problem for the funder as long as such situations are communicated and informed to them. In addition, the efforts made by sharia P2P lending companies to mitigate or overcome the risk of default also need to be communicated to funders. Hence, this research provides implications for improving information transparency in P2P lending, both conventional P2P lending and sharia P2P lending. This research can also provide implications for improving communication between P2P lenders and funders. Moreover, P2P lending companies can find out the costs and strategies related to information transparency, which will be useful in decision-making.

The study has limitations. For example, it only focused on three out of the seven sharia P2P lending companies in Indonesia. Therefore, the differences in business, focus, and other characteristics, such as different target markets, products, or governance structures, were not captured. In addition, the study did not compare information transparency between sharia P2P lending companies and conventional ones. Therefore, future research can compare the two approaches, analyzing whether their practices are different and whether sharia P2P lending companies are more transparent than their conventional counterpart or vice versa. Future research can also employ quantitative methods using panel regression to investigate the relationship between information transparency in P2P lending and funding success (measured by 90-day Payment Success Rate, among others). Besides, future research can also explore the relationship between information transparency and the rate of return provided, using a sample of P2P lending companies in Indonesia or other countries to extend the analysis of this study.

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