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## THE PEER-TO-PEER (P2P) FINANCIAL LENDING FACILITIES ECOSYSTEM IN MALAYSIA

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### Abstract

In recent years, peer-to-peer (P2P) lending has emerged as a transformative force in the Malaysian financial landscape, offering an alternative financing avenue that bridges the gap between borrowers and investors. P2P lending, a form of financial technology (fintech), enables individuals and businesses to obtain loans directly from investors via online platforms, bypassing traditional financial institutions like banks. While peer-to-peer (P2P) lending has introduced a more inclusive and flexible financing model, it is not without its challenges. Among the challenges faced as the industry continues to grow in Malaysia and globally are such as credit risk, lack of investor protection, regulatory uncertainty, platform sustainability and reliability, lack of public awareness on the P2P lending facility and cybersecurity risks. This paper aims to study on the actual use of the P2P platform in Malaysia by the investor/sponsor perspective. A total of 150 investors were collected in this study and the results of this study could provide insight to various stakeholders on the factors for the usage of the platform and regulate suitable legislation by the policy makers.

Keywords: Peer-To-Peer; Lending, Investor, Sponsor, financial technology

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### 1. Introduction

The peer-to-peer (P2P) model is an example of a revolutionary in the financial sector and serve as an additional/alternative channel for securing financial credit. This model not only democratises access to capital but also provides investors with potentially higher returns compared to conventional savings and investment products. Malaysia's embrace of P2P lending has been facilitated by a supportive regulatory environment. The Securities Commission Malaysia (SC) introduced a formal regulatory framework in 2016 to govern P2P lending platforms, ensuring transparency, accountability, and investor protection. Since then, the industry has seen steady growth, with multiple licensed platforms offering services tailored to the needs of small and medium enterprises (SMEs), which serve as a vital component of the Malaysian economy that often struggles to secure funding through traditional channels.

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According to Capital Markets Malaysia (2023), the Malaysian government has recognized P2P lending platform in the year 2016 where the government has established a P2P framework on 2<sup>nd</sup> May 2016. This has created an opportunity for P2P companies to operate in Malaysia. Currently, there are eleven P2P legal operators in Malaysia namely Funding Society, B2B Finpal, Capsphere, Cofundr, Ethis Kapital, Alixco, microLEAP, CapBay, MoneySave, Fundaztic and QuicKash. The appeal of P2P lending in Malaysia lies in its accessibility, speed, and cost-efficiency aspects. For borrowers, especially start-ups and SMEs, P2P platforms serves as an alternative financial credit facility as well as a quicker approval processes and less stringent requirements. For investors, the model provides portfolio diversification opportunities and access to alternative asset classes. Furthermore, digital integration and data-driven credit assessment tools have enhanced the reliability and user experience of P2P lending platforms. This model has its own set of challenges, such as, credit risk, lack of investor protection, regulatory uncertainty, platform sustainability and reliability, lack of public awareness on the P2P lending facility and cybersecurity risks.

As Malaysia moves towards becoming a digital economy, P2P lending plays a pivotal role in enhancing financial inclusion and fostering innovation in the financial sector. However, like any evolving industry, it faces challenges such as credit risk, platform reliability, and investor awareness. Despite these hurdles, P2P lending is poised to continue reshaping Malaysia's lending ecosystem by offering inclusive, technology-driven financial solutions.

### *Problem Statement*

This study is based on the Technology Acceptance Model (TAM), where this model has been widely adopted in various studies on users' acceptance towards a new technology. Nevertheless, there are several gaps identified are lack of inputs on P2P lending industry as alternative financing, and lack of studies on investors' perspective towards P2P lending platforms in Malaysia. Development of P2P lending able to provide business opportunity for P2P service provider and it able to enhance the financial ecosystem that enable borrowers to access different financial sources aside from traditional financial sources such as banks, with an additional alternative to secure financial credit. Haniff, Akma and Lee (2017) found out that 10 SMEs only 2 will manage to secure a loan which have operation less than 3 years. The rejection rate for SMEs or start-up companies considers high as compare with companies which operate more than 3 years. Commercial bank required documents and substantial track record which believe is difficult for some SME owners. This explained that there is a gap between commercial bank and SME owners.

Nevertheless, in order for the credit funding in P2P to be sustainable, the investors' willingness and acceptance of P2P lending facility is vital. Investors play a pivotal role in the success and sustainability of P2P lending platforms. As the primary source of funds, they are the financial backbone of the entire ecosystem, enabling borrowers particularly small and medium enterprises (SMEs) and underserved individuals to access much-needed capital outside of traditional banking systems. Their participation not only drives the functionality of P2P platforms but also shapes the overall growth and trust in the industry. First and foremost, investors provide liquidity, which is essential for meeting borrower demand. Without a steady influx of capital from investors, P2P platforms would be unable to match loans or operate efficiently. Their willingness to invest in a range of credit-risk profiles also ensures that a wider spectrum of borrowers can obtain funding, thereby promoting financial inclusion. This study aims to study the factors of investors' in using the P2P lending facility platform in Malaysia.

*Objectives of the study*

1. To investigate factors in using the Peer-to-Peer (P2P) Lending Services among investors in Malaysia.
2. To examine the intention of investors in adopting Peer-to-Peer (P2P) lending services in Malaysia

*Hypotheses of the study*

- H<sub>1</sub>: There is a significant relationship between perceived usefulness and P2P Lending platform use  
 H<sub>2</sub>: There is a significant relationship between perceived ease of use and P2P Lending platform use  
 H<sub>3</sub>: There is a significant relationship between perceived risk and P2P Lending platform use  
 H<sub>4</sub>: There is a significant relationship between trust and P2P Lending platform use  
 H<sub>5</sub>: There is a significant relationship between government support and P2P Lending platform use

**2. Literature Review***P2P Lending*

One of the key segments of a broader Financial Technology (FinTech) ecosystem is the Peer-to-peer (P2P) lending, creating an alternative pathway for lending landscape, being able to directly connecting borrowers with individual or institutional investors through digital platforms. P2P lending could eliminate many intermediaries, enabling faster loan approvals, greater accessibility to credit, and potentially higher investment returns, unlike conventional banking systems. Despite the introduction of P2P lending concept since 2016, the adoption of P2P lending is relatively low and understanding the factors that influence the adoption is important for a healthier lending ecosystem in Malaysia.

Studies on Malaysian SMEs indicate a low awareness of IR 4.0 (Rusly, Taliba, Abd Mutalib, & Hussin, 2020; Yong, Hamid, & Lee, 2020). According to the FMM-Malaysian Institute of Economic Research Business Conditions 2016, only 12% of SMEs were aware of IR 4.0. The government introduced a policy framework for IR 4.0 in 2017 to facilitate the adoption of advanced technologies and broader ecosystems by businesses. According to Yong et al. (2020), SMEs, particularly in the manufacturing sector, face significant challenges, primarily concerning financial resources. Previous studies highlight that a lack of knowledge in new technologies is a critical barrier to implementing IR 4.0 in industries like manufacturing (Abdul-Hamid, Ali, Tseng, Lan, & Kumar, 2020). For instance, the oil palm industry lacks adequate knowledge management systems for IR 4.0 integration.

*Technology Acceptance Model (TAM)*

Davis (1989) proposed the Technology Acceptance Model (TAM) to explain the effects of variables on consumer behaviour and intentions. Since its inception, TAM has been widely cited in the research context in various settings (Park et al., 2012; Muk & Chung, 2015; Tarhini et al., 2015). This model explains that perceived usefulness, perceived ease of use and attitude will affect the user's intentions to use. This study adopts the TAM theory which has been widely adopted to explain users' acceptance and usage of innovative technologies, including FinTech services and P2P lending platforms. This model proposes two primary constructs; namely perceived usefulness (PU) and perceived ease of use (PEOU). These two constructs are used to determine an individual's intention to adopt a technology. This study also integrates the construct of perceived risk, trust and government support in the model for a more comprehensive understanding of users'

behaviour and adoption intentions in the P2P lending context.

### *Perceived Usefulness*

Perceived usefulness is defined as the level to which a user believes that using a system will improve his or her job performance (Venkatesh & Davis, 2000). According to Marakarkandy et al (2017) explained that perceived of usefulness will influenced by other different factors depend on the environment. Al-Fahim et al. (2016) found that usefulness and ease of use of a banking system in Yemen has a positive influence towards user's attitude and intention to use internet banking. This explained that the benefits of Fintech will be such as usefulness, user-friendliness, time saving and convenience. Hence, perceived usefulness refers to the extent to which users believe that using a particular technology enhances their performance or achieves desired outcomes,

### *Perceived Ease of Use*

Perceived ease of use is defined as the level to which a user believes that using a system would be free from effort (Davis, 1989). A study conducted by Chuang et al. (2016), showed that there is a significant relationship between perceived ease of use with the attitude towards use of Fintech products in Taiwan. Hu et al (2019) examined that there is a significant relationship between perceived ease of use and intention to use Fintech products, however it did not examine the relationship between perceived ease of use with attitude towards Fintech products. Marakarkandy et al (2015) stated that there a positive relationship between perceived ease of use, attitude and intention to use online banking. Lee (2017) examined the relationship between perceived ease of use towards attitude on lender perspective on P2P lending mobile service. This explained that perceived ease of use is an important factor to determine attitude to use or adopt product however most of the empirical studies did not emphases on borrowers' perspectives especially SMEs that view it as an alternative financing method. Hence, perceived ease of use reflects the degree to which users perceive the technology as effortless to learn and operate. In the context of P2P lending, investors are more likely to adopt a platform when they believe it offers efficient investment opportunities, transparent information, faster transactions, and a user-friendly interface.

### *Perceived Risk*

Perceived risk is defined as the uncertainty of a person in contemplating a purchase decision (Cox & Rich, 1964). In the context of information technologies, perceived risk can be explained as a security risk or privacy risk in which personal information can be easily obtained without the consent of the owners (Cox & Rich, 1964; Yiu et al., 2007). According to Tan and Teo (2000), it was found that perceived risk has significant effect on an individual's attitude towards using certain products. In Hu et al (2019) study shown that perceived risk has significant impact toward their trust. This explained that perceived risk will influence the trust toward new technology. Lee (2009) also found that that security risk has a significant impact on user's attitude and is an important factor toward adoption of technology products. As for the context of Internet banking, Martins et al. (2014) reported that perceived risk has a great impact on consumer's attitude towards the payment system which in turn influences their intention to use the facility. Based on the supporting evidence above, it can be ascertained that perceived risk will determine the attitude of an individual towards P2P lending platform.

### *Trust*

Chuang et al (2016) defined that trust is based on the relationship between people and people, people and objects or people and things. On the other hand, trust can be also explained as how willing someone to use fintech products (Yousafzai et al, 2005). Trust has always been a focus in addressing perceived usefulness and perceived ease of use. According to Hu et al (2019) explained that in adoption of fintech services or product, the role of trust plays an important role as trust will increase credibility of the products and this has also supported by Marakarkandy et al (2017). In Hu et al (2019), shown that trust will be influence by the perceived risk of a user. The higher the trust of the user the higher chances that the user will use the new technology and adopt the service.

### *Government support*

In Tan and Teo (2000) define that government support as the efforts of government to provide infrastructure and legal framework. Government Support has always played a significant role towards behaviour and decision making of local companies and international business (Amin et al., 2011). Government support is rarely being study on the influences toward fintech services especially on P2P lending platform. Hu et al (2019) study to determine that relationship government support and intention to use toward fintech services. The result shown there is a positive relationship between government support and intention to use and it was also examined that there is a positive influence between trust and government support. As government is the higher authority hence with the support of government and proper regulation on fintech services it will be able to enhance the trust and adoption toward fintech services.

## **3. Methodology**

This study uses a survey approach where questionnaires were randomly distributed to financial investors engaged in P2P lending activities. The questionnaire consists of eighteen items for both the independent and dependent variables using Five-Likert scale. Table 1 shows the items in each of the variables. A total of 150 responses were received with 40 are the users of the P2P lending facility platform. Table 1 shows the 5-Likert scale are with its respective values.

Table 1: 5-Likert scale values

|                      |             |            |          |                   |
|----------------------|-------------|------------|----------|-------------------|
| 1: Strongly disagree | 2: Disagree | 3: Neutral | 4: Agree | 5: Strongly agree |
|----------------------|-------------|------------|----------|-------------------|

Meanwhile, Table 2 illustrates the total items for both the independent and dependent variables for the study.

Table 2: Items in independent and dependent variables

| Variables             | Items |
|-----------------------|-------|
| Perceived usefulness  | 2     |
| Perceived ease of use | 2     |
| Perceived Risk        | 2     |
| Trust                 | 5     |
| Government            | 3     |

|         |   |
|---------|---|
| P2P Use | 4 |
|---------|---|

A total of 150 responses were received with 40 are the users of the P2P lending facility platform. Hence, the analysis is based on 40 current actual users of the P2P lending facility platform. Table 3 explained the brief summary of the demographic of respondents according to gender, age and married status.

#### 4. Analysis

Table 3 shows that most of the investors are below age 40 with approximately 85%. In 2018, Funding societies CEO mention that most of the investors are between age 20 to 40. This could be due to the acceptance level of younger generation is higher as compare with those who are above age 40. It is mentioned in Thaker et al 2019 that young investors are more suitable in P2P lending platforms due to flexibility and accessibility.

Table 3: Summary of respondents' demographic

| Details                | Percentage (%) |
|------------------------|----------------|
| Gender                 |                |
| Male                   | 47.5           |
| Female                 | 52.5           |
| Age                    |                |
| 21-30 years old        | 47.5           |
| 31-40 years old        | 37.5           |
| 41-50 years old        | 5.0            |
| 51-60 years old        | 2.5            |
| 61 years old and above | 7.5            |
| Marital Status         |                |
| Single                 | 77.5           |
| Married                | 22.5           |

Table 4, shown the P2P lending platforms that invested by P2P investor. It is shown that about 53.23% of the respondents have invested in Funding Society which is one of the leading P2P lending platforms in Malaysia which contributed 51% market shares in P2P lending platforms in Malaysia (FinTechnews Malaysia, 2018). Fundaztic is rank second with 19.36%, QuicKash is approximately 9.67%, B2B Finpal is 11.29% and Alixco is 6.45%. Based on the respondent's data, able to explained that Funding Society is the most popular platform as compared with other companies. Some of the respondents have invested in more than one of the P2P lending facility platforms.

Table 4: Summary of P2P lending platform invested by respondents

| P2P lending facility platform | Percentage (%) |
|-------------------------------|----------------|
| Funding Society               | 53.23          |

|            |       |
|------------|-------|
| Fundaztic  | 19.36 |
| QuicKash   | 9.67  |
| B2B Finpal | 11.29 |
| Alixco     | 6.45  |

Based on Table 5, most of the variables have a value of higher than 0.60 for Cronbach Alpha except for perceived risk (PR) with a relatively low value which is 0.224. This study's Cronbach Alpha's value for most of the dependent and independent variables are between 0.678 and 0.809, hence it is considered acceptable and high in the reliability coefficient. The Cronbach Alpha value for perceived risk is rather low in this study because it may be attributed to its multidimensional nature and different perspective such as security, performance, privacy, financial which may not exhibit high internal consistency when combined into a single construct and risk can be a very subjective construct (Young, S. L., & Laughery, K. R., 1994; Chen L, Ma Z., 2015).

Table 5: Reliability Analysis

| Variables             | Cronbach Alpha |
|-----------------------|----------------|
| Perceived usefulness  | 0.610          |
| Perceived ease of use | 0.651          |
| Perceived risk        | 0.224          |
| Trust                 | 0.669          |
| Government            | 0.774          |
| P2P use               | 0.874          |

Table 6 above illustrates that the value of  $R^2$  is 0.579 and this shows that all the intendant variables will be able to explain approximately 57.9% of the dependent variable. This illustrates a relatively strong relationship between dependent and independent variables. Meanwhile, the adjusted  $R^2$  value is 0.517 and this means adding predictors of factors or items in the variables will improve the regression model by 51.7 percent.

Table 6: Regression analysis

| Regression Statistics |       |
|-----------------------|-------|
| $R^2$                 | 0.579 |
| Adjusted $R^2$        | 0.517 |

Table 7 illustrates the model summary where two variables out of five variables were significant at 5% for the P2P lending facility use by the respondents of this study, namely, perceived ease of use and trust. The results perhaps is due to the demographic of the study as majority of their age is 21-30 years old where trust is the most important (believe in getting their return for their investment). Other than that, the variable of perceived ease of use where the P2P lending platform is free of effort to use and also easy to use.

Table 7: Table for Coefficient

|            | Coefficients | Standard Error | P-value |
|------------|--------------|----------------|---------|
| Constant   | -0.201       | 0.627          | 0.750   |
| PU         | 0.133        | 0.105          | 0.216   |
| PEOU       | 0.300        | 0.125          | 0.022*  |
| PR         | 0.158        | 0.109          | 0.158   |
| Trust      | 0.312        | 0.153          | 0.050*  |
| Government | 0.194        | 0.149          | 0.203   |
| P2P Use    | -0.201       | 0.627          | 0.750   |

\*significant at 5%

### *Contributions to Stakeholder*

This study could provide insights to various key stakeholders in the P2P lending ecosystem such as the FinTech platform developers, the government and regulators, and investors. The results of this study could provide information to the FinTech platform developers in enhancing the platform usability, security, transparency, and overall user experience based on the construct users are prioritizing. On the other hand, the government and regulatory authorities, could provide support in the formulation of policies and regulations that enhance investor protection, promote financial literacy, and foster the sustainable growth of the P2P lending industry. Lastly, this study could provide information to users for them to make an informed-wiser decision financial decision based on better risk and opportunities evaluation.

## **5. Conclusion**

This study reveals that perceived ease of use, and trust are the significant factors influencing investors' attitudes toward peer-to-peer (P2P) lending platforms. The ongoing technological transformation has enabled investors to adopt new platforms that offer greater flexibility in accessing and managing their investment portfolios. Specifically, the perceived ease of use allows investors to conveniently review their investments at any time, enhancing the user experience and platform engagement. The study further demonstrates that trust plays a significant role in shaping investor attitudes toward P2P lending, aligning with findings by Hu et al. (2019). Trust is a crucial factor in decision-making, as supported by Thaker et al. (2019), who also found that trust significantly influences investment intention. Most respondents in this study expressed confidence in P2P platforms, believing that these companies thoroughly verify borrower information before approving loans. To further strengthen investor trust, P2P companies are encouraged to offer educational materials, showcase customer feedback, and organise government-collaborated roadshows to increase public awareness and understanding of P2P investments.

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