





**THE DEFAULT IN ISLAMIC PEER TO PEER  
LENDING: AN APPLICATION OF THE  
GENERAL STRAIN THEORY**

### THE DEFAULT IN ISLAMIC PEER TO PEER LENDING: AN APPLICATION OF THE GENERAL STRAIN THEORY

Dety Nurfadilah, Dida Nurhaida, Sudarmawan Samidi

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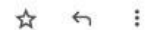
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**Dr. Ascarya** . <journal.jimf@gmail.com>  
to Dety, Dida, Sudarmawan ▾

Wed, Jan 19, 2022, 7:20 PM



Assalamualaikum wr. wb,

Title: "PSYCHOLOGICAL FACTORS BEHIND THE DEFAULT IN THE ISLAMIC PEER TO PEER LENDING: PERSPECTIVE FROM GENERAL STRAIN THEORY"  
Publisher: Bank Indonesia Institute

Dear Dety Nurfadilah, Dida Nurhaida, Sudarmawan Samidi,

The Journal of Islamic Monetary Economics and Finance (**JIMF**) has now reviewed your paper entitled "PSYCHOLOGICAL FACTORS BEHIND THE DEFAULT IN THE ISLAMIC PEER TO PEER LENDING: PERSPECTIVE FROM GENERAL STRAIN THEORY". The reviewer comments are appended below. The reviewer(s) recommend that you revise your paper. We hope that you will find the comments useful in improving the quality of your paper.

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Thank you for submitting your work to the **JIMF**.

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Wassalam and best regards.

Dr. Dr. Ascarya .

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[ascarya@yahoo.com](mailto:ascarya@yahoo.com)

Managing Editor, **JIMF**

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Reviewer A:

Recommendation: Revisions Required

See attachment

Bella, F. I. (2020). Optimization of Islamic peer-to-peer lending for micro and small enterprises (MSEs) after the pandemic of covid-19. Journal of Islamic Economic Laws, 3(2), 108-123.

The theoretical background discussion is generic and does not relate to the primary objectives of the study.

The conceptual model development process is absent. There is no discussion on either the conceptual framework (Figure 2) or any of the eight hypotheses.

#### Method and Data

The methodology section should provide a more detailed discussion on the process of an online survey. The sample selection process is absent which raises questions about the validity of the data. There is no discussion on the model development.

This paper adopts the research instrument from Wang et al (2020) which studies P2P lending from a conventional perspective. The authors did not properly justify the use of this instrument for a study that focuses on Islamic P2P.

#### Analysis and Conclusions

The results are presented in a descriptive manner. There is a lack of critical analysis that compares study results with past findings and theory. A critical reflection on the study findings is absent. Please update the analysis section following the earlier comments.

#### Contribution for Academic, Regulator, and Bank Indonesia Policy

This paper makes limited contributions to the Islamic academic literature and Bank Indonesia policy.

#### Confidential Comments to the Editor (optional)

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to Dety, Dida, Sudarmawan ▾

Mon, Feb 7, 2022, 10:54 AM



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This is just a soft reminder on your paper revisions.  
Please submit your revisions a.s.a.p.  
Thank you for your cooperation.

Wassalam and best regards,  
Dr. Ascarya

...

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Wed, Mar 2, 2022, 10:29 AM



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Thank you for your cooperation.

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**Dety Nurfadilah** <detynurfadilah@gmail.com>  
to dety.nurfadilah, JIMF, Dida, Sudarmawan ▾

Wed, Mar 9, 2022, 7:27 PM ☆ ↶ ⋮

Dear Dr. Ascarya and editorial team  
Journal of Islamic Monetary Economics and Finance (JIMF)

We would like to sincerely apologize for the late submission of our manuscript. We failed to submit it on-time because we want to ensure that our paper has met the satisfaction of both reviewers. We believe that constructive feedback from reviewers is very important to increase the quality of our manuscript. Therefore, we have tried our best to revise accordingly. We hope that our manuscript will be published in your reputable journal. Please find the attached file.

Thank you very much for your understanding.

Regards,  
Dety Nurfadilah

\*\*\*

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Clarity, Significance and Relevance of Themes

see my attachment

Theoretical Ground and Relationship to Literature

see my attachment

Method and Data

see my attachment

Analysis and Conclusions

see my attachment

Contribution for Academic, Regulator, and Bank Indonesia Policy

see my attachment

Confidential Comments to the Editor (optional)

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Reviewer B:

Recommendation: Revisions Required

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Clarity, Significance and Relevance of Themes

The paper address contemporary issues that could contribute to the Islamic finance literature. However, the study rationale is not clear and the problem statement is missing. Authors do not reflect the problems with Islamic fintech in Indonesia. The conceptual model is not properly discussed.

Theoretical Ground and Relationship to Literature

The relevance of the general strain theory to study Islamic P2P default intention is unclear. The literature review does not reflect on any study from P2P lending perspectives. For example, some of the recent papers are not reviewed in this paper:

Serrano-Cinca, C., Gutiérrez-Nieto, B., & López-Palacios, L. (2015). Determinants of default in P2P lending. *PloS one*, 10(10), e0139427.

Zhou, J., Li, W., Wang, J., Ding, S., & Xia, C. (2019). Default prediction in P2P lending from high-dimensional data based on machine learning. *Physica A: Statistical Mechanics and its Applications*, 534, 122370.

Bella, F. I. (2020). Optimization of Islamic peer-to-peer lending for micro and small enterprises (MSEs) after the pandemic of covid-19. *Journal of Islamic Economic Laws*, 3(2), 108-123.

The theoretical background discussion is generic and does not relate to the primary objectives of the study.



# MANUSCRIPT REVIEWING FORM

## ICIEF-IIMEF 2021

<b>Manuscript Paper Code</b>	<b>267</b>
<b>Title of Paper</b>	<b>Why Do Borrowers Default on Islamic Peer to Peer Lending During Covid-19? An Application of General Strain Theory</b>
<b>Reviewer Code No.</b>	<b>A4; B3</b>

**Comments to the Author:**

Please write what kind of improvements needed:

SUBJECT	REVIEWER-1 (A4)	REVIEWER-2 (B3)	AUTHORS' RESPONSE
<b>COMMENT FOR REVISION</b>			
1. <b>OVERALL:</b> Overall clarity, significance, relevance and cohesiveness of the study.	Well-written paper but it needs refinement on the data sampling explanation as well as clear explanation on the results particularly on the moderating effects. English proofreading is required due to a lot of grammatical errors.	This paper is very good in term of idea to apply the GST . Although not the first but it is relatively new and provide a new insight. I believe this paper will attract many quotation as it is new and related to behavioral finance	
2. <b>TITLE:</b> The title should be concise no more than 12 words, but it represents the paper's content.	More than 12 words. Titles' words should be reduced.	I suggest to change the title as it is less attractive. I suggest to use " Psihological factors behind the default in the islamic p2p lending: a prespective from New Strain Theory	Already changed it based on the comments from reviewers
3. <b>ABSTRACT:</b> The abstract contains background, objective, method, primary result, and implication. (Max 250 words). Including JEL Classification (max 4) and Keywords (max 4).	Abstract contains necessary information	Abstract is good unfortunaltely there is a sentence not relevan: <i>This study give contribution to the concepts and practices of Islamic fintech in Indonesia, specifically the credit risk management.</i>	Already deleted the sentence

		<p>...Suggestion: to the sources of default in the islamic fintect lending practices</p> <p>.....</p> <p>Use positive sentence: The study apply survei data collection and attract 386 respendent and then being analysed using PLS</p>	
<p>4. <b>I. INTRODUCTION:</b> Clarity of the problem and background, significance, and relevance of themes.</p>		<p>Very nice introduction as author introduce 3 approaces in uderstanding the P2P lending default. Please use kredit characteristic rather than kredit behviour</p> <p>Please use strong statement that this paper will contribute to the literature. This statement With very limited studies, there remains a gap in our understanding of the borrower's default behavior in Islamic P2P lending from their psychological factors. Should be changed. It is the novelty of your paper: especially in Indonesia</p>	<p>Credit behaviour already changed into credit characteristics and the statement about gap has moved to novelty</p>
<p>5. 1.1. Background: It contains the background and motivation of the study and research gap.</p>	<p>Background and motivation of study are provided. Research gap is discussed. Some abbreviations used are not written in full names eg. OJK, WHO, etc.</p>	<p>Yes it is very good</p>	<p>We already changed the abbreviations</p>
<p>6. 1.2. Objective: It contains the objective of the study or research questions to be answered. Ended with organization of the paper.</p>	<p>Clear objectives.</p>	<p>Yes, that's very good. I perfer to use. The objective of the paper is to rather that referring to the previosu research etc</p> <p>I suggest to use : The objective of this paper is to examine the role of behavioral biases in Islamic p2P lending platforms</p>	<p>We already changed the objective in page 4</p>
<p>7. <b>II. LITERATURE REVIEW:</b> Theoretical Ground and Relationship to Literature.</p>		<p>Yes, it is there.</p> <p>I suggest to use paper from OJK (Wimboh et al (2020)).</p>	<p>We already added this article as references</p>

8. 2.1. Background Theory: It contains theoretical grounds that support the research	The background theory is well presented.	Please refer to Wang, Xu, Lu,., Zhang, C. (2020).	
9. 2.2. Previous Studies: It describes relevant, comprehensive and updated past studies related to the topic, as well as summarizes the past studies of what seems to be consensus, settled, and what remains a puzzle.	Most past studies are not recent. Add more on the recent years studies.	Please Wimboh Santoso, Irwan Trinugroho & Tastaftiyan Risfandy (2020) What Determine Loan Rate and Default Status in Financial Technology Online Direct Lending? Evidence from Indonesia, Emerging Markets Finance and Trade, 56:2, 351-369, DOI: 10.1080/1540496X.2019.1605595 As this study is unique please provide the insight or reason behind the quoted paper. For example p2p lending in china by Wang et al (2020)	Already added the recent previous studies in page 6 - 7
10. 2.3. Conceptual Framework (optional): It describes and conceptualize the approach to answer the research questions in a visual framework.		I suggest to add Merton's work to provide historical perspective. <a href="https://www.taylorfrancis.com/chapters/edit/10.4324/9781315133683-7/revitalizing-merton-general-strain-theory-robert-agnew">https://www.taylorfrancis.com/chapters/edit/10.4324/9781315133683-7/revitalizing-merton-general-strain-theory-robert-agnew</a>	We really want to add this into our paper, but we have difficulty to access the book due to non-subscription.
11. <b>III. METHODOLOGY:</b> The methods used to analyze the problems, including the data and model development.		In general the approach followed a standard used in the referred paper	
12. 3.1. Data: It describe the data used in the study according to the method used, and the reasons why.	Sample size should be based on population size in the focus area. No explanation on the determination of target sample size and how data distributed among regions in Java Island.	In general, it is very good however to make it better: Data collection and mesurement should be explained more clearly	Already added additional explanation in page 8
13. 3.2. Model Development: It describes the proposed model scientifically, the theoretical based, how to construct, why, and references.	Well presented	I think as the definition of default varied from countries to countries, please refer to default denition in Indonesia context The paper followed Wang et all (2020) : it is correct choice	Already added the additional information in page 6
14. 3.3. Method: It describes the method selected, why it is used, how to use it, its requirements, etc.	Well described.	Explain why author uses PLS. There is many reasons and select that is relevant to you data etc	Already added the explanation in page 10-11

15. 3.4. Steps of Research (optional): It describes how to use the method to solve the problem, step by step.	Well explained.	There and very good	
16. <b>IV. RESULTS AND ANALYSIS:</b> The presentation of results and critical analysis of the results.		Please follow Wang (2020) by providing this Construct, Item Std. loading T-value AVE CR Cronbach's alpha ... ( See in wang (2020) please	Please check table 3. Reliability and validity
17. 4.1. Results: It presents and describes results comprehensively according to standard presentations of the methods used.	Results for H6 stated there is a negative and significant moderates effect between normal norm and strains but all moderating results shown on the table are "insignificant" and coefficients are not all negative as expected. Clear explanation is required particularly on the results of moderating effects.	Yes but for descriptive analysis, authors can make it better	The result already changed based on the reviewer's feedback in page 16
18. 4.2. Robustness Test (if applicable): It contains tests to evaluate the robustness of the results.	The tests are conducted.		
19. 4.3. Analysis: It contains critical analysis of the results, the meaning behind the numbers, how do they differ or equate to other related studies, and the demonstration of the contribution of the present study.	Results are analyzed but the moderating effects are not being discussed in detail.	I suggest for any construct that is significant always discuss it and compare to previous research. I think this part can be made better and explainable so the discussion will be richer  You have to make it better than this paper (Wang et al 2020): <a href="https://www.emerald.com/insight/content/doi/10.1108/INTR-05-2019-0183/full/html">https://www.emerald.com/insight/content/doi/10.1108/INTR-05-2019-0183/full/html</a> .  Give more analysis and support it with previous papers	We already added more explanation in page 18-19
20. <b>V. CONCLUSION AND RECOMMENDATION:</b> Concluding remarks of the study and recommendations to stakeholders.		Too short and not yet reflected the rich result of the study	

21. 5.1. Conclusion: It contains the main findings of the study, and additional findings if any.	It contains main findings	Please also aware with this especially on the implication: the relationship between consumer credit borrowing and what has become known as “financialisation” and the increasing dependence of social and economic relations of all parties within the global financial markets may be enrich the discussion. see Montgomerie, J., 2009. The pursuit of (past) happiness? Middle- class indebtedness and American financialisation. <i>New Political Economy</i> , 14(1).	We already added this point on page 20-21
22. 5.2. Recommendation: It contains real and feasible recommendations for practitioner, regulator and further research.	Recommendations and limitations are provided and well discussed.	The most relevant should P2P lending consider psychological factors of borrower.  Should explain non p2p borrowers as respondent reduce the validity (29% is non users).	The explanation has been added in page 21
23. <b>REFERENCES:</b> List of references cited in the paper using standard APA Style of Referencing; should be mostly come from Scopus/WoS journals	Acceptable but add more recent past studies.	please delete reference that is not in the paper	Done
24. <b>Writing Language:</b>	Need English proof reading for grammar and spelling.	need an upgrade to make more precisely	
25. <b>Others:</b>		As this paper is relatively new in Indonesia using this framework please make it as the best paper to attract more citations in the future	



## **PSYCHOLOGICAL FACTORS BEHIND THE DEFAULT IN THE ISLAMIC PEER TO PEER LENDING: PERSPECTIVE FROM GENERAL STRAIN THEORY**

Dety Nurfadilah<sup>1\*</sup>, Dida Nurhaida<sup>2</sup> and Sudarmawan Samidi<sup>3</sup>

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### **ABSTRACT**

The objective of this study is to investigate the borrower's default intention on Islamic peer to peer lending during COVID-19 from their psychological perspective. Using general strains theory as a framework, this study proposed a model by adding life dissatisfaction, perceived unfairness, and inferiority feeling as variable that measure negative affect for the context of Islamic peer to peer lending during COVID-19 pandemic. The study applies survey data collection and attract 386 respondents and then being analysed using SEM PLS. The result showed that economic pressure and socialization difficulty during COVID-19 are found to have positive indirect effect toward willingness to repay through moral norm and negative affects, while socialization difficulty found to have no direct effect toward willingness to repay. To the sources of default in the Islamic fintech lending practices, this study give contribution to the concepts and practices of Islamic fintech in Indonesia.

*Keywords: Islamic P2P lending, Default behavior, psychological factors, COVID-19 pandemic*

**JEL classification: : D01; G21; G32; G40**

**Article History:** (filled by Journal Manager)

Received : .....

Revised : .....

Accepted : .....

Available online : .....

<https://doi.org/.....>**I. INTRODUCTION****1.1. Background**

The COVID-19 health crisis, which started in Wuhan in late 2019 and declared as pandemic by **World Health Organization** (WHO) in March 2020, has stimulated much discussion into its impacts on Financial Technology (FinTech). In particular, the issue of loan default in peer-to-peer lending has been brought back into the spotlight. Although the number of borrower's transaction in P2P lending grew significantly during COVID-19 (**Bareksa, 2020**), 90 days loan repayment success rate is still at 96.02 since January 2020 and decline to 91.12 percent in August 2020 (**Otoritas Jasa Keuangan, 2020**). The decline in the percentage of 90 days success rate also indicates that the ratio of non-performing loans (NPL) is also increasing. This is supported by the statistical data that NPL in February 2020 was 3.92%, then decreased in August 2020 to 8.88% (**Otoritas Jasa Keuangan, 2020**).

In response to the issue of high borrower's default during pandemic, **Otoritas Jasa Keuangan** has announced the importance of better scoring system to improve the loan quality. **Otoritas Jasa Keuangan** also has called several fintech companies to discuss the action plan to improve their loan repayment strategy (**Ardianto, 2020**). This issue also become a concern that might be the case for Islamic peer to peer lending too, which require more investigation.

Theoretically, there are three views related to **credit characteristic** of fintech peer to peer lending. *First*, the process of loan in peer-to-peer lending is different than traditional banking due to information asymmetry (Lin, Li, and Zheng., 2017). Fintech lending credit data is currently not listed in the financial information service system (SLIK) by **Otoritas Jasa Keuangan**, so there is a difficulty to predict borrower's creditworthiness from the information provided in the online platform, such as basic personal data, location, photograph (**Idris, 2021**). On other words, it will be individual investors who bear the credit risk instead of financial institutions (**Serrano-Cinca et al., 2015**). *Second*, the default risk in peer-to-peer



lending is higher in nature compared to traditional loans. This is due to the assumption that lenders have little knowledge about credit risk management and screening process. So that, P2P lending offer a higher risk with higher default probability compared to traditional loans (Guo et al., 2016).

Third, according to Wang et al. (2020) and Agnew (1992), default is considered as deviant behavior. By referring to general strain theory as comprehensive psychological mechanism for deviant behavior, the model consists of strains (stress factors), negative affect, constraints, normal norm toward deviant behavior (Agnew, 2001, 2010). In the context of Islamic P2P lending, when the borrowers have no ability to repay the loan within 90 days, it is considered as a behavior that violate the legal contract between lender and borrowers. Thus, it is important to examine the borrower's psychological perspective during crisis because the demand for financing increase together with the default rate.

Empirically, several papers have emerged to analyze the borrower's default. They predominantly focus on loan characteristics, such as interest rate, loan period, loan size (Croux et al., 2020; Everett, 2015), borrowers characteristics, such as gender, annual or monthly income, current housing situation, past loan experience (Serrano-cinca et al., 2015; Iyer et al., 2015; Lin et al., 2017). Some studies analyzed the borrower's default from the screening process, such as social media activities (Khilfah & Faturohman, 2020), identification image, while others looked at the macroeconomic perspective (Croux et al., 2020). However, very few studies that relate default behavior with psychological factors, especially in the context of Islamic peer to peer lending. Tokunaga (1993) conducted a study to analyze consumer credit characteristic through several variables, such as borrower's perception toward money, borrower's self-efficacy, and sensation-seeking. Another study conducted by Lea et al. (1995) mentioned that the level of social status also has a positive relationship with the use of credit. Wang et al. (2020) adopted general strain theory to analyze the psychological factors of default borrowers in microloan in China. The study showed that economic pressure and socialization difficulty found to have positive effect on borrower's life dissatisfaction, perceived unfairness, inferiority feeling, and loneliness. Strains and negative affect found to have positive effect on default intention, while moral norm found to have negative effect on default behavior through strains and negative affect.

Therefore, this study contributes to the literature in several aspects. First, with very limited studies, there remains a gap in our understanding of the

borrower's default behavior in Islamic P2P lending from their psychological factors. It also remains uncertain whether the psychological factors of borrowers would affect their default behavior during COVID-19 pandemic. Extensive researches have focused on non-psychological factors, such as borrowers and loan characteristics (Wimboh et al., 2020); social media activities (Khilfah & Faturohman, 2020), while this study focused on psychological factors for the borrowers of Islamic peer to peer lending. *Second*, we contribute to the literature on default behavior in Islamic peer to peer lending. Although there is only one study related to Islamic peer to peer lending companies in Indonesia (Wimboh et al., 2020), majority of previous research focused on Microfinance Institutions (Ssekiziyivu et al., 2017; Worokinasih, 2019), agricultural credit corporation (Ewuola and Williams, 1995); conventional peer to peer lending companies (Croux et al., 2020; Chen et al., 2019; Lin and Viswanathan, 2015), Islamic banking and conventional banking (Bekele et al., 2016). *Third*, this study collects the data from respondents in Indonesia. Atz and Bholat (2016) stated that geographical differences bring new perspective. The result will be varied due to its different in access to finance, government regulation, environment, and social. Indonesia as the country with highest muslim population and unique geography will bring novelty to the literature in the field of Islamic fintech. *Fourth*, to the best of author's knowledge, there is no current study that use COVID-19 crisis as the phenomenon that represent the economic pressure. Majority of studies used the issue of financial disruption and comparison between Islamic and conventional fintech (Bekele et al., 2016).

## 1.2. Objective

The objective of this study is to examine the role of behavioral biases in Islamic P2P lending platform during COVID-19 pandemic. The rest of the paper is organized as follows. Section 2 reviews the literature on Islamic peer-to-peer lending and credit behavior; section 3 explains the data and methodology; section 4 discusses the empirical results; section 5 concludes the paper.

## II. LITERATURE REVIEW

### 2.1. Background Theory

#### 2.1.1 Islamic Peer to Peer Lending in Indonesia

Peer to peer (P2P) lending is a business model that integrate finance and technology to collect funds from a lender and distribute the funds to the borrowers. The process should be taken via an online platform in which the borrowers can request for the loan to the lenders (Gomber et al., 2017). The basic transaction is similar to traditional lending, but the process to request for loan is different which use online platform (Liu, Brass, Lu & Chen, 2015). When we compare with crowdfunding, P2P lending focus on an individual borrower and lender, while crowdfunding pool the fund from many investors to finance the project (Ban & Lee, 2020; Hasnan, 2019).

On the other hand, Islamic peer to peer lending is described as a technology-based business that offer financial services based on Islamic shariah compliant (Wiryanto, 2018). The mechanism should not violate shariah principles, such as prohibition of interest (riba), speculation or gambling (maysir), uncertainty (gharar) and include any forbidden products and services, such as money game, haram products, beer, and others (Todorof, 2018). In Indonesia, there are thirteen Islamic peer-to-peer lending companies that have been registered with Otoritas Jasa Keuangan (Nurfadilah & Samidi, 2021).

#### 2.1.2 General strain theory

General strain theory was first introduced by Robert Agnew (1992) to examine various category of deviant behaviors. In order to understand the psychological mechanism of deviant behavior, there are two-stage process as follows: 1) The effect of strains on negative effects. Strains described as a pressure from one or more condition that could trigger people to be more deviant (Agnew, 2010; Zhang and Lester, 2008). Some people with low ability to control, they prefer to run from that pressure and engage more in deviant behavior (Agnew, 1992). 2) There are other external factors which could be possible to restrict the adoption of such behavior or it is known as constraints. People with less constraints are normally less aware of the consequences of their deviant behavior. This theory has been used extensively to explain deviant behaviors by previous researchers in the context of school bullying, self-harm, workplace violence.

In the context of loan, general strain theory has been applied by Wang et al. (2020) on their study about default behavior on microloan in China. Default is defined as the condition when borrowers could not fulfil their obligation to repay the loan (Chau, 2018; Nowak et al., 2018). The study used economic pressure and socialization difficulty as the strains; life dissatisfaction, perceived unfairness, loneliness, and inferiority feeling as the negative affects; moral norm and perceived deterrence as the moderating variables; and default behavior as the deviant behavior. This study believe that default is considered as deviant behavior because it contradicts with the contract between borrowers and lenders. In addition, it also causes several negative impacts to the investors and even community.



Figure 1. General Strain Theory (Agnew, 1992; Wang et al., 2020)

## 2.2 Previous Studies

There has been extensive research on default behavior that looked at several factors, such as loan rate, loan purpose, loan size. The study by Dorfleitner and Oswald (2016) and Serrano-Cinca et al. (2015) mentioned that the increase in the loan size, the higher the probability of default. This is in-line with the previous finding by Everett (2015) that showed positive relationship between loan rate and default. Others studies discussed about borrower's characteristics which consist of credit history and demographic profile like gender, income level, educational level, and others (Emekter et al., 2015; Iyer et al., 2015; Lin et al., 2017). It showed that borrowers with low credit score is more likely to have a higher default rate. Study conducted by Iyer et al., (2015) mentioned that there is a positive relationship between borrower's social network with default behavior. When the borrower has more than borrowers-friend with bad debt, the risk of default increased. Wimboh et al. (2020) conducted a study about the default on Islamic peer to peer lending from three platforms in Indonesia. The result found that high loan interest rate has a significant relationship with loan default and loans with longer period has a

positive relationship with the default for two platform that mainly focused on invoice financing, online seller financing, and employee financing, while on the other hand, it found to be negative relationship for another platform that focused on micro business.

However, limited studies that focused on psychological mechanism of credit behavior, specifically default. Ganbat et al. (2021) conducted a study about the psychological factors of mortgage loan repayment behavior in Mongolia and found that borrower's self-control, financial decision-making, selflessness, and attitude toward money affect their willingness to repay. Wang et al. (2020) conducted a study about default behavior on microloan in China using general strain theory and found that economic pressure and socialization difficulty have a significant relationship with negative affect, such as life dissatisfaction, perceived unfairness, inferiority feeling and loneliness, while moral norm and perceived deterrence play an important role as mediator toward default intention.

Morse (2015) conducted a study about peer-to-peer crowdfunding and found that the borrower's perception toward financial distress have relationship with their debt-laden. Azzimonti et al. (2014) and Huang (2021) discussed that unequal income distribution led to borrower's perception toward social inequality which trigger their default intention. When the peer-to-peer lending companies give penalty charge for delinquency, it is more likely affect their debt repayment. Based on author's knowledge, this study is among the first to examine the borrowers default behavior from psychological perspective in Islamic peer to peer lending during COVID-19 pandemic. Therefore, this study is intent to fill the gap between theory and practice. The finding of this study is expected to bring a new insight in the Islamic fintech literature that can be used as a reference for policy maker and practitioners.

### III. METHODOLOGY

#### 3.1. Data

This study used convenience sampling technique or known as a non-probabilistic or non-random sampling in which members of the target population meet certain practical criteria, such as easy access, geographical proximity, availability at a given time or willingness to participate for the purpose of the study (Etikan and Sulaiman, 2016). Convenience sampling method is used in this research due to its cost and time effectiveness, as well as its easiness to gather data from a gaggle of

individuals. This method also has been used by other study related to mobile banking (Safira & Baridwan, 2018); smart work (Reddy, Rangka and Attada, 2020); online shopping (Tham, Dastane, Johari, & Ismail, 2019) to collect information from members of the population who are conveniently available.

The primary data are collected from a survey through online platform to the respondents at Java Island <sup>1</sup> which represent around 80% of accumulated borrower’s account in Indonesia (Otoritas Jasa Keuangan, 2020) and majority of fintech companies are located in this region. As many as 18 (eighteen) items of questions are constructed in the format of 1 to 5 Likert scales (see table 1). At the beginning of the questionnaire, all respondents were asked about their personal experience when they used Islamic peer-to-peer lending platform and their willingness to use the platform. Then, the respondents have to filled the remaining questions related to the variable in this study. Follow the ten thumbs rule by Hair et al. (2013), the minimum sample size in this study is 180. We received completed questionnaires from 386 respondents (response rate 63,8%).

### 3.2 Model Development

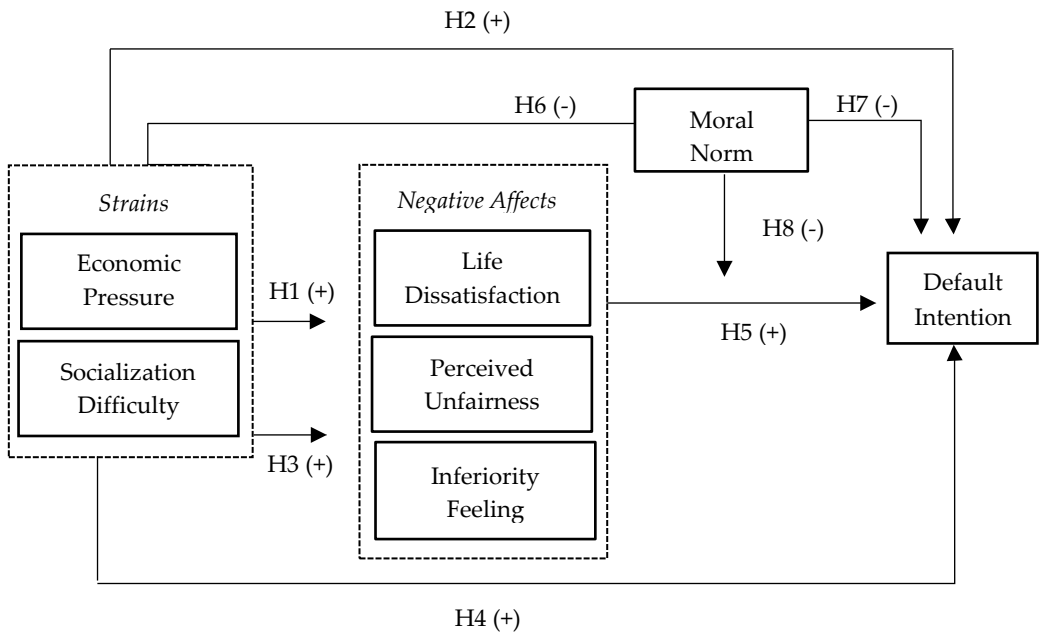


Figure 2. Research model adopted from Wang et al. (2020) and Wimboh et al. (2020)

<sup>1</sup>Java Island in this study refers to DKI Jakarta, West Java, East Java, Central Java, Banten, and Yogyakarta

## Hypothesis:

- H1. There is a positive and significant effect between economic pressure and negative affects (life dissatisfaction, perceived unfairness, and inferiority feeling) during COVID-19 pandemic
- H2. There is a positive and significant effect between economic pressure and default intention during COVID-19 pandemic
- H3. There is a positive and significant effect between socialization difficulty and negative affects (life dissatisfaction, perceived unfairness, and inferiority feeling) during COVID-19 pandemic
- H4. There is a positive and significant effect between socialization difficulty default intention during COVID-19 pandemic
- H5. There is a positive and significant effect between negative affects and default intention during COVID-19 pandemic
- H6. There is a negative and significant effect between strains and moral norm during COVID-19 pandemic
- H7. There is a negative and significant effect between socialization moral norm and default intention during COVID-19 pandemic
- H8. There is a negative and significant moderating effect between negative affects and default intention during through moral norm during COVID-19 pandemic

### 3.3 Measurement

Based on table 1, each latent variables consist of several measurement. The research framework was adopted from Wang et al. (2020). The questionnaire consists of three sections where the first section asked several screening questions, second section discussed about respondent's profile, and last section focused mainly to the variables used in the study, and the last section.

**Table 1.**  
**The Items of Questionnaires**

Variables	Code	Measurement	Instrument/Sources
<b>Economic Pressure (EP)</b>	EP1	The average of your expenditure-to-income ratio per month is	(1)Less than 20%; (2) 20%-40%; (3) 40%-60%; (4) 60%-80%; (5) More than 80%
			Wang et al. (2020)

	EP2	The perceived price level where you live is	(1)Very Low; (2) Low; (3) Normal; (4) High; (5) Very high  Wang et al. (2020)
<b>Socialization Difficulty (SD)</b>	SD1	The average of time spent on social media per day is	(1)Do not use every day; (2) 1h – 3h; (3) 3h–5h; (4) 5h – 7h; (5) More than 7h  Wang et al. (2020)
	SD2	The total number of friends on messaging tools like WhatsApp is	(1)Below 150; (2) 150 – 300; (3) 300 – 450; (4) 450 – 600; (5) More than 600  Wang et al. (2020)
	SD3	The level communication with colleagues, friends, and family every day is	(1)Very Low; (2) Low; (3) Normal; (4) High; (5) Very high  Wang et al. (2020)
<b>Life Dissatisfaction (LD)</b>	LD1	I think my life goals is still difficult to achieve	Huang et al. (2011)
	LD2	I feel not satisfied with my current life	
	LD3	I am easily get insecure in my life	
<b>Perceived Unfairness (PUF)</b>	PUF1	I think my work receive an equal reward or incentive	Azzimonti et al. (2014)
	PUF2	I think other people who put similar effort receive higher reward than me	
	PUF3	I think the environment where I live is not fair and partial	
<b>Inferiority Feeling (IF)</b>	IF1	I believe that I am successful	Stone and Maury (2006)
	IF2	I cannot achieve many target like others	
	IF3	I think I don't have a value	
	IF4	I do not always get respect from others in my community	
<b>Moral Norm (MN)</b>	MN1	I think it is essential to keep integrity in any situations	Burszytn et al. (2019)
	MN2	I think it is a must to follow the rules and law	
	MN3	I think that being honest would bring loss for me, and we should not be too honest in the society	



### **3.4 Method**

This study used quantitative approach through survey. The variables in this study consist of economic pressure, socialization difficulty, life dissatisfaction, perceived unfairness, inferiority feeling, moral norms, perceived deterrence, and default intention. To analyze the borrower's default intention on Islamic P2P lending in Indonesia, partial least squares (PLS-SEM) analysis was used. It is well understood that PLS-SEM enables researcher to estimate complex models with many constructs, indicator variables and structural paths without imposing distributional assumptions on the data (Hair, Risher, Sarstedt, & Ringle, 2019). More importantly, PLS-SEM is a causal approach that emphasizes prediction in the estimation of statistical models, the structure of which is designed to provide causal explanations (Sarstedt et al., 2017). This statistical software has been used by previous researchers in the field of business, management, marketing (Hair et al., 2013), and even in the context of psychological factors of default in microloan (Wang et al., 2020).

The analysis consists of several process. First, the data were analysed for goodness fit of model, validity and reliability test, collinearity test. According to Ursachi, Horodnic & Zait (2015), the value of composite reliability at 0.7 is considered very good. Hair et al. (2010) also stated that VIF should be less than 4. Moreover, Ascarya and Rahmawati (2015) mentioned that the value of loading factor should be above 0.5 for each indicator. Second, this study employed bootstrapping technique for testing the hypothesis based on path modelling (Hair et al., 2013). Once all the data were analyzed, next step was to conduct descriptive statistics.

## **IV. RESULTS AND ANALYSIS**

### **4.1. Results**

#### **4.1.1 Demographic Respondents**

According to the table 2, majority of the respondents were male (58.81%) and the rest were female (41.19%). Majority of respondents were in the age range 19 – 34 (59.84%) and followed by age range 35 – 54 (38.86%), while the least were older than 54 years old (0.78%) and younger than 19 years old (0.52%). In terms of educational level, respondents were dominated by undergraduate (40.41%) and followed by senior high school (27.72%) and junior high school (23.83%), while the least respondents were postgraduate (6.99%) and elementary school (1.04%).

In terms of monthly income, the respondents are mostly having income in the range Rp3.000.000 – Rp6.000.000 (32.90%), followed by Rp9.000.000 – Rp12.000.000 (25.65%) and Rp6.000.000 – Rp9.000.000 (16,58%), while the rest have monthly income below Rp3.000.000 (10.88%) and above Rp12.000.000 (13.99%). Majority of them didn't have their own home (75.13%), while some of them have their own (24.87%). In terms of working experience, most of them had less than 3 years working experience (51.55%) and married (77.20%). The last one, most of them had tried the services from Islamic peer to peer lending once (44.04%).

**Table 2.**  
**Respondents' Profile**

Demographic Variables		Frequency	Percent
Gender	Male	227	58.81
	Female	159	41.19
Age	<19	2	0.52
	19-34	231	59.84
	35-54	150	38.86
	>54	3	0.78
Education	Elementary School	4	1.04
	Junior High School	92	23.83
	Senior High School	107	27.72
	Undergraduate	156	40.41
	Postgraduate	27	6.99
Monthly Income	Below Rp3.000.000	42	10,88
	Rp3.000.000 – Rp6.000.000	127	32,90
	Rp6.000.000 – Rp9.000.000	64	16,58
	Rp9.000.000 – Rp12.000.000	99	25,65
	Above Rp12.000.000	54	13,99
Home Owner	Not Self-Owned	290	75,13
	Self-Owned	96	24,87
Years of Working	Never	75	19.43
	Less than 3 years	199	51.55
	3-6 years	60	15.54
	More than 6 years	52	13.47
Marital Status	Married	298	77.20
	Single	88	22.80
Islamic P2P Lending Experience	Heard but haven't tried	114	29.53
	Tried it once	170	44.04
	Tried 2 – 3 times	65	16.84

Tried 4 – 5 times	19	4.92
Tried more than 5 times	18	4.66

### 4.1.2 Outer Loading

Based on the below figure, all measured variables (EP1 – EP2) significantly explain economic pressure. EP1 the highest loading factors 0.862, followed by EP2 (0.844). All measured variables (SD1 – SD3) significantly explain socialization difficulty. SD2 has the highest loading factors 0.867, followed by SD1 (0.865) and SD3 (0.772). All measured variables (IF1-IF4) significantly explain inferiority feeling. IF2 has the highest loading factors 0.883, followed by IF3 (0.825) and IF1 (0.702). All measured variables (PUF1-PUF3) significantly explain perceived usefulness. PUF1 has the highest loading factors 0.900, followed by PUF2 (0.886). All measured variables (LD1-LD3) significantly explain perceived trust. LD2 has the highest loading factor 0.830, followed by LD1 (0.773). All measured variables (MN1-MN3) significantly explain attitude behavior. MN3 has the highest loading factor 0.847, followed by MN2 (0.840) and MN1 (0.792).

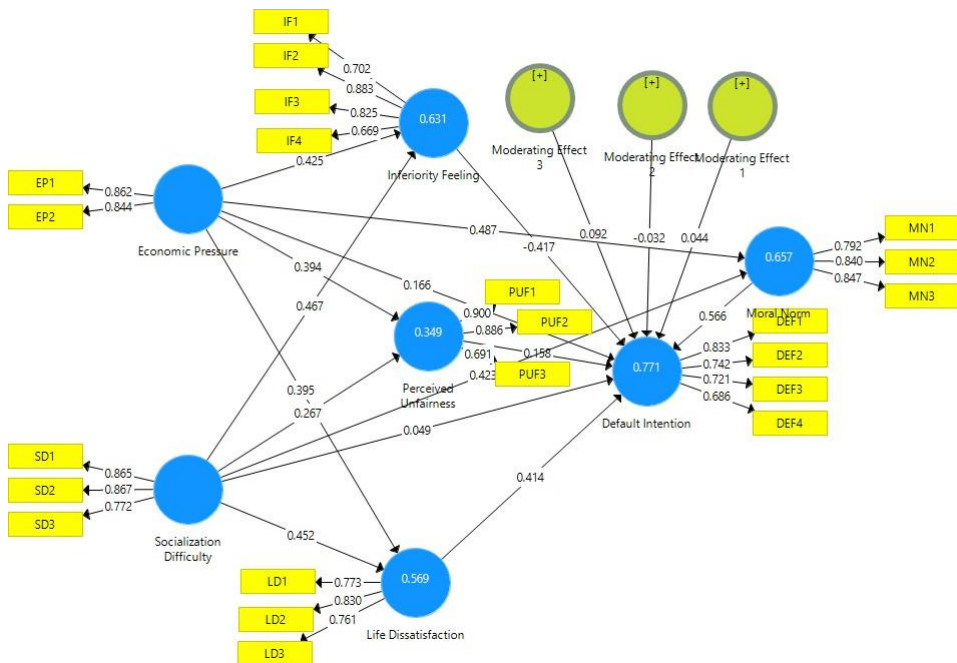


Figure 3. Outer loading

### 4.1.3 Reliability and Validity Test

Based on table 3, the result for cronbach's alpha and composite reliability are considered as good because the values are more than 0.7 (Hulland, 1999; Barclay, Higghins, & Thompson, 1995). In addition to that, the result for average variance extracted (AVE) is also considered as good because the value is above 0.5 (Fornell & Larcker, 1981).

**Table 3.**  
**Reliability and Validity**

Construct	Cronbach's Alpha	rho_A	Composite Reliability	AVE
Economic Pressure	0,860	0,864	0,915	0,782
Socialization Difficulty	0,782	0,785	0,874	0,699
Life Dissatisfaction	0,880	0,884	0,926	0,807
Perceived Unfairness	0,828	0,846	0,898	0,748
Inferiority Feeling	0,801	0,828	0,883	0,715
Moral Norm	0,786	0,790	0,903	0,824
Default Intention	0,847	0,849	0,908	0,769

### 4.1.4 Multicollinearity Test

Based on the table 4, this study passed the multicollinearity test because the value of VIF is below 5 (Kline, 1998) and also below 10 (Hair et al., 2010).

**Table 4.**  
**Collinearity Assessment (VIF)**

	EP	SD	LD	PUF	IF	MN	PD	DEF
EP			1,553	1,553	1,553			
SC			1,553	1,553	1,553			

<b>LD</b>	3,324
<b>PUF</b>	2,097
<b>IF</b>	1,801
<b>MN</b>	3,195
<b>DEF</b>	

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**4.1.5 Structural Model**

Based on table 5, the R-square value for default intention is 0.771 which considered as good. It means that the other three latent variables (IF, LD, PUF, MN) moderately explain 77.1% of the variance in default intention in Islamic P2P lending. In addition to that, the conceptual model explained 63.1% of the variance in inferiority feeling, 56.9% of the variance in life dissatisfaction, 34.9% of the variance in perceived unfairness, and 65.7% of the variance in moral norm.

**Table 5.**  
**R-Square**

<b>Variable</b>	<b>R Square</b>
Default Intention	0,771
Inferiority Feeling	0,631
Life Dissatisfaction	0,569
Moral Norm	0,657
Perceived Unfairness	0,349

**Table 6.**  
**Hypothesis Testing**

	<b>Original Sample (O)</b>	<b>Sample Mean (M)</b>	<b>Standard Deviation (STDEV)</b>	<b>T Statistics ( O/STDEV )</b>	<b>P Values</b>	<b>Result</b>
EP -> IF	0,425	0,425	0,045	9,533	0,000	<b>Accepted</b>
EP -> LD	0,395	0,393	0,048	8,234	0,000	<b>Accepted</b>

EP -> PUF	0,394	0,397	0,063	6,267	0,000	<b>Accepted</b>
EP -> DEF	0,166	0,163	0,052	3,166	0,002	<b>Accepted</b>
SD -> IF	0,467	0,468	0,044	10,676	0,000	<b>Accepted</b>
SD -> LD	0,452	0,455	0,047	9,696	0,000	<b>Accepted</b>
SD -> PUF	0,267	0,266	0,060	4,448	0,000	<b>Accepted</b>
SD -> DEF	0,049	0,048	0,047	1,060	0,290	<b>Rejected</b>
IF -> DEF	-0,417	-0,425	0,159	2,627	0,009	<b>Accepted</b>
LD -> DEF	0,414	0,425	0,134	3,099	0,002	<b>Accepted</b>
PUF -> DEF	0,158	0,160	0,048	3,284	0,001	<b>Accepted</b>
EP -> MN	0,487	0,487	0,038	12,793	0,000	<b>Accepted</b>
SD -> MN	0,423	0,423	0,040	10,644	0,000	<b>Accepted</b>
MN -> DEF	0,566	0,566	0,078	7,227	0,000	<b>Accepted</b>
MN x IF -> DEF	0,044	0,027	0,150	0,292	0,771	<b>Rejected</b>
MN x LD -> DEF	0,092	0,107	0,154	0,596	0,551	<b>Rejected</b>
MN x PUF-> DEF	-0,032	-0,031	0,036	0,894	0,372	<b>Rejected</b>

**Hypothesis 1: There is a positive and significant effect between economic pressure and negative affects (life dissatisfaction, perceived unfairness, and inferiority feeling) during COVID-19**

Based on the table 6, the result showed that there was a positive and significant effect between economic pressure (EP) and negative affects, such as life dissatisfaction (LD), perceived unfairness (PUF), and inferiority feeling whereby p-value is less than or equal to the alpha ( $\alpha$ ) or  $0.000 \leq 0.05$ , so that we accept H1.

**Hypothesis 2: There is a positive and significant effect between economic pressure and default intention during COVID-19**

The result showed that there was a positive and significant effect between economic pressure (EP) and default intention (DEF) whereby p-value is less than or equal to the alpha ( $\alpha$ ) or  $0.000 \leq 0.05$ , so that we accept H2.

**Hypothesis 3: There is a positive and significant effect between socialization difficulty and negative affects (life dissatisfaction, perceived unfairness, and inferiority feeling) during COVID-19**

The result showed that there was a positive and significant effect between socialization difficulty (SD) and negative affects, such as life dissatisfaction (LD), perceived unfairness (PUF), and inferiority feeling whereby p-value is less than or equal to the alpha ( $\alpha$ ) or  $0.000 \leq 0.05$ , so that we accept H3.

**Hypothesis 4. There is a positive and significant effect between socialization difficulty default intention during COVID-19**

The result showed that there was no significant effect between socialization difficulty (SD) and default intention (DEF) whereby p-value is higher than alpha ( $\alpha$ ) or  $0.000 > 0.05$ , so that we failed to accept H4.

**Hypothesis 5: There is a positive and significant effect between negative affects and default intention during COVID-19**

The result showed that there was a positive and significant effect between negative affects, such as life dissatisfaction (LD), perceived unfairness (PUF), inferiority feeling (IF) and default intention (DEF) whereby p-value is less than or equal to the alpha ( $\alpha$ ) or  $0.000 \leq 0.05$ , so that we accept H5.

**Hypothesis 6: There is a negative and significant effect between strains and moral norm during COVID-19**

The result showed that there was negative and significant effect between strain (economic pressure (EP) and socialization difficulty (SD) and moral norm whereby p-value is lower than the alpha ( $\alpha$ ) or  $0.000 \leq 0.05$ , so that we accept H6.

**Hypothesis 7: There is a negative and significant effect between moral norm and default intention during COVID-19**

The result showed that there was negative and significant effect between moral norm and default intention whereby p-value is lower than the alpha ( $\alpha$ ) or  $0.000 \leq 0.05$ , so that we accept H7.

### **Hypothesis 8: There is a negative and significant moderates' effect between negative affects and default intention during COVID-19**

The result showed that there was not significant effect between negative affects and default intention (DEF) through the moderation of moral norm (MN) whereby p-value is higher than alpha ( $\alpha$ ) or  $0.000 > 0.05$ , so that we failed to accept H7.

#### **4.3. Analysis**

The economic downturn during COVID-19 has caused a significant impact on the sustainability of fintech industry. The study found that economic pressure is significantly caused the borrower's willingness to repay their loan, especially when they experienced a difficulty on their financial condition due to layoff, salary deductions, bankruptcy. It showed that the economic pressure which affect their financial condition tend to have lower life satisfaction. It is in-line with the previous study conducted by Wang et al. (2020) about default intention on microloan in China which discussed that higher perceive of economic pressure led to lower life satisfaction. Another study conducted by Lund et al. (2021) stated that frequent mental distress during COVID-19 pandemic affect their life dissatisfaction. This is supported by the data from McKinsey (2020) in which majority of people still feel the weak economic condition in their country. They give hope that the COVID-19 crisis will last a year after the vaccines in many countries, the economic pressure that has been continued for almost 2 years gave huge impact on many people's financial health, as well as mental health.

This study found that high economic pressure during pandemic also increase borrower's perception of unfairness and inferiority feeling. This is more likely related to the subjective evaluations of social status which lead to different treatment (Lee and Kawachi, 2019). It causes people to be more insecure and complain about their current condition. When people feel insecure, they tend to withdraw themselves from social situation. This finding is in-line with the study conducted by Wang et al. (2020) mentioned that economic pressure in microloan affect the borrower's perception of unfairness and their inferiority feeling toward default.



In response to the COVID-19 pandemic, government imposed a policy of enforcing community activity restriction or known as *pemberlakuan pembatasan kegiatan masyarakat (PPKM)* which has advantage and disadvantage. On one side, this policy is effective to limit the transmit of corona virus (Cabinet Secretariat of the republic of Indonesia, 2021). The statistical data showed that new positive cases have declined significantly around 107.835 cases from 1-15 July to 1-15 August 2021 due to the implementation of emergency PPKM (Simamora, 2021). It also caused a significant improvement in the technology and innovation adoption, such as high number of online shopping, high trend toward hybrid working environment, and so forth so on.

However, on the other side, it limits the psychical business activity and social life which affect the ongoing of small and medium enterprises and even large type of enterprises. This study found that the higher the difficulty to socialize during pandemic, the higher the level of life dissatisfaction, perceived unfairness, and inferiority feeling. It increases drastically when they experience failed in their life or business which affect their willingness to repay the loan. This is supported by the study conducted by Gupta (2020) which stated that social restriction led to serious psychological distress. In the context of Islamic P2P lending, Wang et al. (2020) also found that socialization difficulty has a positive relationship with life dissatisfaction, perceived unfairness, inferiority feeling, and loneliness. It also directly affects the borrower's default intention.

Another finding showed that moral norms play an important role in affecting borrower's willingness to repay the loan. Economic pressure is found to have negative significant effect on moral norms and moral norms is found to have negative significant effect on default intention, while it found to have insignificant moderating effect between negative affects and default intention. The government support to relieve the financing is a good strategy to maintain the good percentage of 90 days success rate and also to support small and medium enterprises who are struggling during these times. Although majority of borrowers are familiar with the consequences of default, but they prefer to protect their financial health.

## V. CONCLUSION AND RECOMMENDATION

### 5.1. Conclusion

This research aims to explore the effect of psychological factors on borrower's default intention in Islamic peer to peer lending during COVID-19 pandemic in Indonesia. The study expand the general strain theory by using several variables, such as strains like economic pressure and socialization difficulty, negative affects

like life dissatisfaction, perceived unfairness, and inferiority feeling, and moral norms towards default intention.

Based on the result, economic pressure and socialization difficulty during COVID-19 are found to have positive effect on negative affects, while socialization difficulty found to have no direct effect toward default intention. Moral norm also play as a moderating variable between strains and default intention, although it found to have no significant role between negative affects and default intention.

## **5.2. Recommendation**

Alam et al. (2019) added that Islamic fintech as an alternative financial product for the unbankable group, it needs better regulation to supervise the activities. In order to create a better ecosystem in the Islamic financial industry, there should be a better collaboration between government, Islamic fintech companies, banks, customers, and academicians. This study has several implications for Islamic peer to peer lending companies. The finding of this study can be used as a reference to improve the screening process in order to create a better credit risk management. As a nature, Islamic fintech have different mechanism than traditional financial. The process for financial approval is very challenging where it should be supported by credible tools. With the knowledge provided in the website, the investor should understand the risk from their investment, specifically when they choose for the target project or borrowers. This study contributed to the understanding that psychological of borrowers also very important to understand their personal characteristics and behavior during crisis.

In addition, there is a concept of financialization that raise from the existence of innovation from fintech industry. According to Montgomerie (.), financialization is used to evaluate the changes of behavior caused by the transformation of innovation in financial industry. It is used to evaluate the relationship created by that transformation to the customers, individual, firms, and domestic economic. During COVID-19 pandemic, there is a new shift in consumer behavior where people found it easier and more convenient to get a lending from Islamic P2P lending compared to traditional banking. McKinsey (2020) mentioned that customers prefer financial services that are more flexible, efficient, integrate technology into their services. It can be seen from the statistical data that the number of borrower's account increase from 18.569.123 in December 2019 to 43.561.362 which increased 134,59% (Otoritas Jasa Keuangan, 2021).

There is also synergy between Islamic P2P lending with Islamic banking, such as Fintech Alami with Bank Syariah Indonesia and Islamic rural banks to expand the services into bank digital (Ramli, 2021). It is expected that the collaboration will strengthen the ecosystem of Islamic economic, such as the development of digital payment shariah, marketplace halal, halal tourism, and halal value chain as an important aspect of small and medium enterprises (Komite Nasional Ekonomi dan Keuangan Syariah, 2019).

This study also offers several implications for the theory. First, it expands the literature of Islamic fintech by incorporating general strain theory to understand the psychological of default borrowers. Prior to date, majority of research focused on non-psychological factors, such as loan characteristics and borrowers' characteristics. Second, this study advanced our understanding about the default intention during COVID-19. The finding enriches the literature by focusing on the current issue, while majority of previous research focused on the issue of financial disruption or the performance of Islamic fintech . Third, it expands the literature related to consumer behavior in using Islamic fintech services.

### **5.3 Limitation and Future Research**

There are two limitations in this study. First, the study only uses a sample of Islamic peer to peer lending borrowers and non-borrowers (29%) in Java Island which reduce the validity. Although that region has a larger representative compared to other region, but the higher level of default also coming from the other provinces. The future researcher is expected to expand the sample size by adding the respondents from outside Java. Second, the study focused on economic pressure and socialization difficulty during COVID-19 together with life dissatisfaction, perceived unfairness, and inferiority feeling, moral norms toward default intention. Future researchers can use the other strains and negative affects that could be relevant to the context of Islamic peer to peer lending, for instance the borrower's belief and loneliness.

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