FAQ on P2P lending in Malaysia

How does P2P lending work?

A P2P platform is merely just that: an online platform to connect two parties.

So, businesses and companies needing a loan can apply to be listed on a platform for investors to consider.

The investment process is dependent on the rules set by the respective platform operators.

But in general, the platform operator performs credit scoring and due diligence before listing it on the platform so potential investors can consider lending money to these businesses or companies by bidding for investment notes.

Investors can use registered P2P platforms to look at available investment notes or an Islamic investment note issued by businesses or companies.

Can individuals borrow money on P2P platforms?

The short answer is no. In Malaysia, P2P operators are only allowed to facilitate loans for businesses and cannot offer personal financing to individuals, unlike in other jurisdictions like in the US or China.

Who can invest in P2P loans?

Technically, anyone can invest. The P2P investment opportunities are open to all investors, both retail and sophisticated.

There are no investment limits enforced on investors. However, the SC reminds that retail investors should limit their investment exposure to a maximum of RM50,000 at any one time in order to manage their risk exposure.

Is P2P lending a safe investment?

As with all investments, P2P lending has risks attached. Investors are advised to analyse and understand disclosed information on the issuer's business, financial information, credit assessment, repayment schedule, risk information and other relevant details.

What if I change my mind on an investment?

There is no mandatory cooling-off period for investments made on P2P platforms. But platform operators have the discretion to offer such a cooling-off period if it sees fit.

What kind of companies or businesses can raise funds?

The target group for P2P financing is generally the micro-enterprises and SMEs.

P2P platforms can only host the following types of companies: locally-registered sole proprietorships, partnerships, incorporated limited liability partnerships, private limited and unlisted public companies.

Platforms are not allowed to raise funds for entities that are public listed or subsidiaries of listed companies, companies with no specific business plans as well as companies that plan to merge with or acquire an unidentified entity.

A business or company cannot be hosted concurrently for the same purpose on more than one P2P platform. However, a business or company may be allowed to list on a P2P platform and ECF platform at the same time subject to disclosure requirements.

How much money can a business or company raise via P2P platforms?

The SC does not impose a limit on how much a business or company can raise money. The P2P operator will have to decide on how much an issuer can raise as well as the financing rate, based on the issuer's risk score.

An issuer is allowed to keep the funds raised on a P2P platform provided that the take-up rate is at least 80% of the target amount. If it does not reach the 80% take-up rate, it will not be able to receive any amount.

In the event that an issuer gets bids that exceeds its target amount, the issuer will only be able to retain the full amount it was intending to raise and not the additional portions.

What are the obligations of a P2P operator?

Among other things, the platform operator must be able to determine the suitability of issuers that are to be hosted on their respective platforms. This means that the platform operators have to do things, including conducting background checks, assessing the creditworthiness of a company or businesses, ensuring compliance with rules and ensuring that funds received are placed in a third party trust account until the appropriate disbursements are required to be made.

What information will be disclosed to investors?

The platform operators must make available relevant information on the issuers. This includes the issuers' key characteristics, business plan, purpose of fundraising and financial information. Additionally, the platform operator also has to disclose information on general risk warnings, appropriate risk disclosure of issuers, risk scoring mechanism, criteria for determining a default, processes to manage a default, and information on late payment and default rate of issuers hosted.

What is the interest rate for P2P lending?

When an issuer applies for funding, the P2P operator will evaluate the issuer's creditworthiness by looking at available data, including its capacity to repay via credit history checks and analysis of any alternative data.

The interest rates for a particular issuer will be determined by the P2P operator on a transparent risk scoring mechanism and methodology.

What happens if a P2P operator goes bust?

The SC guidelines stipulate that the operator cannot cease business or operations without prior engagement with the SC. In the event that an operator has to wind up, there will be an orderly plan put in place to minimise disruptions. E