Behind the curtain of payday lending: revealing consumer insights and ethical challenges in Indonesia and the USA using web-scraping methods

Received 22 March 2023
Revised 4 May 2023
Accepted 16 May 2023

Sri Rahayu Hijrah Hati
Department of Management, Faculty of Economics and Business, Universitas Indonesia, Depok, Indonesia, and

Hamrila Abdul Latip
Faculty of Economics and Business, University of Malaysia Sarawak, Kota Samarahan, Malaysia

Abstract

Purpose – This paper aims to explore the consumer insights and ethical concerns surrounding the online payday loan services available in the Google Play Store. This research was conducted to compare whether the presence or absence of debt collection protection acts in a country creates differences in consumer experiences regarding the ethics of payday loan collection. Specifically, the study compares customers' experiences in both the Indonesian and US markets.

Design/methodology/approach – Indonesia and the USA were chosen because they have very different regulatory structures for the payday loan industry. The data was scraped using Python from 27 payday loan apps on the Indonesian Play Store, resulting in a total of 244,697 reviews extracted from the Indonesian market. For the US market, 446,010 reviews were extracted from 14 payday loan apps. The data was further analyzed using NVIVO.

Findings – The results suggest that consumers of payday loans in Indonesia and the USA hold positive views about the benefits of payday loan apps, as revealed by the word frequency and word cloud analysis. Notably, customers in both countries did not express any negative sentiments regarding the unethical interest rate charged by the payday loan, contradicting what is commonly reported in academic literature. However, a distinct pattern of unethical conduct was observed in both countries concerning marketing communication and debt collection practices. In the Indonesian market, payday loan companies were found to engage in unethical debt collection activities. In the US market, payday lenders exhibited unethical behavior in their marketing communication, particularly through deceptive advertising that makes promises to consumers that are not delivered.

Originality/value – The study aims to provide evidence on the various experiences of customers in the presence and absence of debt collection regulations using a novel methodology and a large sample, which strengthens the results and conclusions of the study. The study also intends to inform policymakers, particularly the Indonesian government, about the need for specific laws to regulate the debt collection process and prevent unethical practices. Ultimately, the study is expected to protect the rights of consumers from a deceptive marketing communication or unethical debt collection practices in both the Indonesian and US markets.

Keywords Ethics, Customer experience, Payday loan, Web-scraping, Google apps

Paper type Research paper

This work was completed as part of the PUTI (Publikasi Terindeks Internasional) Q1 research grant NKB-373/UN2.RST/HKP.05.00/2022, funded by Universitas Indonesia.

International Journal of Ethics and Systems

2514-9369
DOI 10.1108/IJOES-03-2023-0060

Introduction

A payday loan refers to short-term, high-interest loans that are commonly due on the consumer's next payday after the loan is taken (Ftc.gov, 2018). It stood at a revenue of US$ 33.5bn in 2021 and is predicted to expand at a compound annual growth rate (CAGR) of 4.1% (Vantage Market Research, 2022). The rising awareness of payday loans among the youth population is expected to fuel the growth of the payday loans market, which is projected to reach $48.68bn by 2030 (Allied Market Research, 2021; Vantage Market Research, 2022).

Historically, payday lenders have existed for hundreds of years; they were known as underground purveyors who offered one-week loans at annual percentage rates (APRs) ranging from 120% to 500%, which is similar to the interest charged by payday lenders today (Pewtrusts.org, 2012). Currently, payday or shark loans operate through online platforms. Unfortunately, the growing digitalization of consumer finance exposes consumers to new threats (Cherednychenko and Meindertsma, 2019). Payday lenders see a loophole in the online platform since the internet is borderless, enabling companies to set up overseas and provide loans to Americans without considering federal and state consumer protection laws (Wack, 2017). Like offline payday lenders, online payday lenders typically charge higher interest rates (Lee *et al.*, 2022; Wack, 2017).

To collect repayment for payday loans, debt collectors frequently use tactics such as wage garnishment, public embarrassment, "bawling out", extortion and the threat of job loss to ensure loan repayment (Pewtrusts.org, 2012). Unfortunately, these unethical, abusive, inflexible, unfair and unforgiving debt collection practices are still commonly used by payday lenders, as described in academic literature (Baradaran, 2020; Bremner, 2010; Hosie *et al.*, 2017; Stifler, 2017). Not only have consumers in the USA experienced these practices (Baradaran, 2020; Bremner, 2010; Hosie *et al.*, 2017; Soederberg, 2018; Stifler, 2017), but they have also been reported in other parts of the world, such as Canada (Robinson and Robinson, 2018), UK (Fejős, 2015), Australia (Chen, 2020), China (Tong, 2017) and Indonesia (Musari, 2020).

Based on academic literature, the USA is a country with particular regulations to protect the debt collection procedure. In 1977, the Fair Debt Collection Act was enacted in the USA to eliminate unethical and abusive debt collection practices without restricting the right of an ethical debt collector (Bremner, 2010; Soederberg, 2018). Despite the existence of this law that regulates payday loans in the USA, customers are still frequently disturbed by unethical and coercive debt collection practices, including repetitive profanity-filled telephone calls, threats of arrest, intentional harassment at work and even threats of physical violence (Bremner, 2010). Therefore, many scholars suggest that the law should be reformed (Bremner, 2010), specific regulations should be added (such as regulating allowable fees), or even that the industry should be banned (Allcott *et al.*, 2022; Schwartz and Robinson, 2018).

In 2016, Google, the giant search engine in the world, banned ads promoting loans in the USA with APRs above 36% to protect consumers from predatory services (Wack, 2017). Unfortunately, numerous payday loan services ads were found on the search engine two years later. Even though the ads violate Google's policy, the advertisers can still promote their payday loans as long as the high-cost loans are not mentioned on the webpage where the user first lands after clicking on the ad (Wack, 2017). In 2019, Google took a further step by banning payday loan services from its Google Apps platform (Leon, 2019). Again, the ban fails into effect (Bloomberg, 2020). Five months after the ban, payday-style applications offering fast money for one or two weeks are still easy to find in many countries on Google Play. Some even charge interest rates that can exceed 200% annualized (Bloomberg, 2020).