“The Development of Islamic Banking and Finance in Indonesia and Policy Responses”

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IPIEF ISLAMIC FINANCE OUTLOOK 2018
Yogyakarta, 28 Desember 2017
AGENDA

1. Global Islamic Finance And Islamic Banking Development
2. Islamic Banking Development In Asia
3. Policy Response
GLOBAL ISLAMIC FINANCE AND ISLAMIC BANKING DEVELOPMENT
Factors predicted to boost Islamic finance growth in 2020 such as:
1. Increase on Muslim population;
2. Increase on awareness of Islamic finance;
3. Increase on income and welfare of Muslim society.

Islamic banking still takes large portion on global Islamic finance total asset.

Meanwhile in Indonesia, largest portion of Islamic finance belongs to Islamic capital market contributed hugely by government sukuk issuance (93%).
## Global Islamic Finance Development

### Islamic Finance Country Index (IFCI) 2017

<table>
<thead>
<tr>
<th>COUNTRIES</th>
<th>2017 IFCI</th>
<th>2016 IFCI</th>
<th>CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RANK</td>
<td>SCORE</td>
<td></td>
</tr>
<tr>
<td>MALAYSIA</td>
<td>1</td>
<td>79.25</td>
<td>-</td>
</tr>
<tr>
<td>IRAN</td>
<td>2</td>
<td>78.42</td>
<td>-</td>
</tr>
<tr>
<td>SAUDI ARABIA</td>
<td>3</td>
<td>65.90</td>
<td>-</td>
</tr>
<tr>
<td>UNITED ARAB EMIRATES</td>
<td>4</td>
<td>38.02</td>
<td>-</td>
</tr>
<tr>
<td>KUWAIT</td>
<td>5</td>
<td>35.20</td>
<td>-</td>
</tr>
<tr>
<td>PAKISTAN</td>
<td>6</td>
<td>24.30</td>
<td>+3</td>
</tr>
<tr>
<td>INDONESIA</td>
<td>7</td>
<td>23.90</td>
<td>-1</td>
</tr>
<tr>
<td>BAHRAIN</td>
<td>8</td>
<td>21.96</td>
<td>-</td>
</tr>
<tr>
<td>QATAR</td>
<td>9</td>
<td>21.94</td>
<td>-2</td>
</tr>
<tr>
<td>BANGLADESH</td>
<td>10</td>
<td>16.73</td>
<td>-</td>
</tr>
<tr>
<td>SUDAN</td>
<td>11</td>
<td>15.70</td>
<td>-</td>
</tr>
<tr>
<td>TURKEY</td>
<td>12</td>
<td>12.17</td>
<td>-1</td>
</tr>
</tbody>
</table>

### Constituent Variables/Factors of IFCI

<table>
<thead>
<tr>
<th>VARIABLES/FACTORS</th>
<th>DESCRIPTION</th>
<th>WEIGHTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>NUMBER OF ISLAMIC BANKS: Full-fledged Islamic banks both of local and foreign origin</td>
<td>21.8%</td>
</tr>
<tr>
<td>2</td>
<td>NUMBER OF IFIs: All banking and non-banking institutions involved in IFIs, including Islamic windows of conventional banks</td>
<td>20.3%</td>
</tr>
<tr>
<td>3</td>
<td>SHARI'A SUPERVISORY REGIME: Presence of a state (or non-state) representative central body to look after the Shari'a compliancy process across the IFIs in a country</td>
<td>10.7%</td>
</tr>
<tr>
<td>4</td>
<td>ISLAMIC FINANCIAL ASSETS: Islamic financial assets under management of Islamic and conventional institutions</td>
<td>13.9%</td>
</tr>
<tr>
<td>5</td>
<td>MUSLIM POPULATION: Absolute number of Muslims</td>
<td>7.2%</td>
</tr>
<tr>
<td>6</td>
<td>SUKUK: Total sukuk outstanding in the country</td>
<td>6.6%</td>
</tr>
<tr>
<td>7</td>
<td>EDUCATION &amp; CULTURE: Presence of an educational and cultural environment conducive to operations of IFIs, including formal Islamic finance professional qualifications, degree courses, diplomas and other dedicated training programmes</td>
<td>5.7%</td>
</tr>
<tr>
<td>8</td>
<td>ISLAMIC REGULATION &amp; LAW: Presence of regulatory and legal environment enabling IFIs to operate in the country on a level-playing field (e.g., Islamic banking act, Islamic capital markets act, takaful act etc.)</td>
<td>4.9%</td>
</tr>
</tbody>
</table>
ISLAMIC BANKING DEVELOPMENT IN ASIA
<table>
<thead>
<tr>
<th>Country</th>
<th>Total Assets</th>
<th>Largest Islamic Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>INDONESIA</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Assets</td>
<td>US$29.94 Billion</td>
<td>Bank Muamalat US$3.9Bn</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mandiri Syariah US$5.8Bn</td>
</tr>
<tr>
<td><strong>MALAYSIA</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Assets</td>
<td>US$181 Billion</td>
<td>CIMB Islamic US$13.6Bn</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Maybank Islamic US$40.8Bn</td>
</tr>
<tr>
<td><strong>PAKISTAN</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Assets</td>
<td>US$17.1 Billion</td>
<td>Meezan Bank US$5.9Bn</td>
</tr>
<tr>
<td></td>
<td></td>
<td>BankIslami US$163Mn</td>
</tr>
<tr>
<td><strong>BANGLADESH</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Assets</td>
<td>US$29.04 Billion</td>
<td>IFIC Bank US$2.9Bn</td>
</tr>
<tr>
<td></td>
<td></td>
<td>HSBC Bhutan US$9.3Bn</td>
</tr>
</tbody>
</table>
### POPULATION & NUMBER OF ISLAMIC BANKS

<table>
<thead>
<tr>
<th>Country</th>
<th>Population</th>
<th>Islamic Commercial Banking</th>
<th>Islamic Windows</th>
<th>Islamic Rural Banks</th>
<th>Islamic Branches of Conventional Banks</th>
<th>Full Fleged Islamic Banks</th>
<th>Islamic Branches of Conventional Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>237 Million</td>
<td>13</td>
<td>21</td>
<td>167</td>
<td>13</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Malaysia</td>
<td>31.7 Million</td>
<td>16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pakistan</td>
<td>189 Million</td>
<td>16</td>
<td></td>
<td></td>
<td></td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>160 Million</td>
<td>18</td>
<td></td>
<td></td>
<td></td>
<td>8</td>
<td>8</td>
</tr>
</tbody>
</table>
ISLAMIC BANKING DEVELOPMENT
INDONESIA VS MALAYSIA
BANKING ASSETS’ GROWTH COMPARISON

Indonesia Islamic banking growth is higher compared to Malaysia on last 2 years

**Malaysia Banking Assets’ Growth**

*Source: BNM Statistics, processed*

**Indonesia Banking Assets’ Growth**

*Source: SPI and SPS, processed*
Islamic Banking
Indonesia vs Malaysia

FINANCIAL INCLUSION COMPARISON
Malaysia is superior to Indonesia in terms of Knowledge and Awareness to Sharia Finance.

Islamic Finance Knowledge Indicator – Top 10 Countries
DBS Asian Insights, April 2017

Malaysia is country with the highest level of Sharia Financial Knowledge, which is seen from the number of Shariah Finance Research and Graduates. While Indonesia ranks in 4th position, is superior in terms of number of Study Programs.

Islamic Finance Awareness Indicator – Top 10 Countries
DBS Asian Insights, April 2017

Based on Awareness Levels indicated by the number of Seminars and Conference held, as well as News Articles, Malaysia is superior to Indonesia.
POLICY RESPONSE
Challenges and Opportunity for Indonesia Islamic Finance

### Challenges

1. Low literacy and inclusion level of Islamic finance (literacy index 8.11% and inclusion index 11.06%).
2. Unvaried product and services that do not yet meet public expectation.
3. Unfavorable public perception for Islamic banking.
4. Inadequate capital and small industry scale.

### Opportunity

1. High government commitment to further promote Islamic finance (KNKS, government sukuk, WIIB, etc).
2. Increase in number of middle-class Muslim.
3. Public awareness for halal product.
OJK WIDE MASTER POLICIES
FOR 2017 - 2022
OJK Wide Master Policies for 2017 - 2022

**Pillar 1**
1. Developing and conducting IT-based supervision of the financial services sector
2. Reinforcing regulation, licensing and integrated supervision of financial conglomerates
3. Implementing international prudential standards that fit best for national interests
4. Reforming the non-bank financial industry (IKNB) into a stronger and competitive one
5. Increasing efficiency in the financial services industry, to transform the industry into a competitive one

**Pillar 2**
6. Optimizing financial technology roles by means of proper regulation, licensing and supervision
7. Promoting Islamic finance’s increased contribution in providing funding sources for development
8. Revitalizing the capital market to promote long-term development financing

**Pillar 3**
9. Reducing disparity by providing financial access
10. Increasing consumer education and protection activities’ effectiveness

Creating a resilient, stable, competitive and financial services sector (SJK) that produces sustainable growth
Creating a financial services sector that contributes to welfare equality
Providing reliable consumer protection, in order to promote financial inclusion
7. Promoting Islamic finance’s increased contribution in providing funding sources for development

OJK Wide Islamic Finance Priority Programs in 2018

1. Improvement of Sharia Banking Marketing Strategy

2. Developing Islamic finance product/services variation that meet customer needs

3. Developing Islamic mutual funds product (infrastructure, agriculture based Islamic mutual funds)

4. Optimization of hajj fund management through Sharia Capital Market

5. Establishing regional and/or university-based Sharia Financial Center collaborating with regional government and/or university as Islamic economy and finance development lab.

6. Development of Islamic financial technology and pawnshop as financing alternatives for productive economic activities
ISLAMIC FINANCE'S CONTRIBUTION AS FUNDING SOURCES FOR DEVELOPMENT
Islamic Finance For Development

Policy Response

Improvement of Sharia Banking Marketing Strategy

Developing Islamic finance product/services variation that meet customer needs

Number of accounts

3rd Party Funds

Financing

26,57 million accounts

5,71 million accounts

Islamic Banking Growth Trend

Number of accounts

3rd Party Funds

Financing

26,57 million accounts

5,71 million accounts

Islamic Banking Growth Trend

Assets Growth

Financing Growth

3rd Party Funds Growth
OPTIMIZING HALAL INDUSTRY POTENTIAL
**Global Islamic Economy Indicator**

*Source: State of The Global Islamic Economy 2016 – 2017*

### Top 15 Countries

**GIE Indicator Score**

<table>
<thead>
<tr>
<th>Country</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>121</td>
</tr>
<tr>
<td>UAE</td>
<td>86</td>
</tr>
<tr>
<td>Bahrain</td>
<td>66</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>63</td>
</tr>
<tr>
<td>Oman</td>
<td>48</td>
</tr>
<tr>
<td>Pakistan</td>
<td>45</td>
</tr>
<tr>
<td>Kuwait</td>
<td>44</td>
</tr>
<tr>
<td>Qatar</td>
<td>43</td>
</tr>
<tr>
<td>Jordan</td>
<td>37</td>
</tr>
<tr>
<td>Indonesia</td>
<td>36</td>
</tr>
<tr>
<td>Singapore</td>
<td>32</td>
</tr>
<tr>
<td>Brunei</td>
<td>32</td>
</tr>
<tr>
<td>Sudan</td>
<td>28</td>
</tr>
<tr>
<td>Iran</td>
<td>28</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>26</td>
</tr>
</tbody>
</table>

### Top 10 Halal Food

1. UAE
2. Australia
3. Pakistan
4. Brazil
5. Malaysia
6. Oman
7. Somalia
8. Saudi Arabia
9. Bahrain
10. Qatar

### Top 10 Islamic Finance

1. Malaysia
2. UAE
3. Bahrain
4. Saudi Arabia
5. Oman
6. Kuwait
7. Pakistan
8. Qatar
9. Indonesia
10. Jordan

### Top 10 Halal Travel

1. UAE
2. Malaysia
3. Turkey
4. Singapore
5. Jordan
6. Maldives
7. Iran
8. Lebanon
9. Oman
10. Saudi Arabia

### Top 10 Modest Fashion

1. UAE
2. Turkey
3. China
4. India
5. Italy
6. Sri Lanka
7. Bahrain
8. France
9. Singapore
10. Togo

### Top 10 Halal Media and Recreation

1. UAE
2. Singapore
3. Bahrain
4. Lebanon
5. United Kingdom
6. Qatar
7. France
8. Germany
9. Kuwait
10. Australia

### Top 10 Halal Pharmaceuticals and Cosmetics

1. UAE
2. Malaysia
3. Singapore
4. Egypt
5. Pakistan
6. Jordan
7. Saudi Arabia
8. Indonesia
9. Oman
10. Brunei

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**Millennial Engagement**

452,600 Facebook interactions

- **Top countries millennials engaged with Islamic Economy topics:**
  - Indonesia: 126k
  - Malaysia: 84.7k
  - Pakistan: 55.9k

- **Most active Islamic Economy sectors for millennials**
  - Islamic finance: 157k
  - Modest fashion: 101k
  - Media/recreation: 99k

- **Islamic economy sentiment:**
  - 76% Positive
  - 17% Negative
  - 7% Neutral
### Volume of millennial interactions on Halal Travel by country

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Interactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>4.6K</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1.9K</td>
</tr>
<tr>
<td>United States</td>
<td>1.6K</td>
</tr>
<tr>
<td>Pakistan</td>
<td>500</td>
</tr>
<tr>
<td>Nigeria</td>
<td>400</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>300</td>
</tr>
<tr>
<td>India</td>
<td>300</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>100</td>
</tr>
<tr>
<td>Philippines</td>
<td>100</td>
</tr>
<tr>
<td>Australia</td>
<td>100</td>
</tr>
<tr>
<td>Singapore</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source:** State of the Global Islamic Economy Report 2013 - ThomsonReuters
SOCIAL AND RELIGIOUS SECTOR INTEGRATION TO ISLAMIC FINANCE
For future development of financial services sector, it will be beneficial to integrate the sector into the real, religious and social sectors so that the three sectors can grow together.
Social and Religious Sector Potential

**Religious Sector**

- **Waqf Potential**: Rp2.000 trillion (2016)
  - Source: National Zakat Institution
  - Source: National Zakat Institution
- **Number of Mosques across Indonesia**
  - 2013: 731,096
  - Predicted number in 2017: 800,000
  - Source: Survey of Indonesia Mosque Board

**Social Sector**

- **Number of Overall Islamic Study Programs**: 563
  - Source: Ministry of Research, Technology and Higher Education
- **Number of Islamic Economy/Finance/Banking Study Programs**: 147
  - Source: Ministry of Education and Culture
- **Number of Islamic Boarding Schools**: 25 thousands
  - Source: Nahdlatul Ulama

Social and religious sectors potential could become opportunity for Islamic finance sector in terms of sectoral integration aside from Islamic-based real sector.
ISLAMIC FINANCE FOR PRIORITY SECTOR
Projected Need for Infrastructure Spending: Indonesia (2015-2019) US$ 366.7bn, such as:

- Roads: US$56bn
- Railroads: US$17bn
- Air Transport: US$11bn
- Marine Transport: US$45.2bn
- Electricity: US$76.4bn
- Water Resources: US$34.5bn
- Urban Transport: US$6.6bn
- Ferry: US$3.6bn
- Energy&Gas: US$38.8bn
- Water&Sewerage: US$30.8bn
- Public Housing: US$25.0bn
- ICT: US$21.4bn

Total investment needed:
US$ 366.7 billions
≈ Rp4.796 T

Financial gap:
Rp626 T

- Building at least 2,000 km length of roads
- Building at least 10 seaports and 10 airports
- Building at least 10 industrial area
- Building at least 5,000 traditional markets and modernizing them
- Creating a centralized office to improve efficiency such that the maximum day for getting business permit will be reduced to 15 days
- Supporting SOEs as development agents and establishing Development and Infrastructure Bank
- Committed to increase research budget and creating proactive agents to serve the innovators and inventors in protecting their copyrights and patents
- Building a number of science and techno parks with the latest technology

Source: Bappenas

Promote utilization of Islamic financial sector as financing alternatives for state-owned corporation and national development programs

Syndicated financing
6 Islamic banks
Soreang-Pasir Koja (Soroja) highway
Rp834 billion

Syndicated financing
7 Islamic banks
Kertajati Airport (Majalengka)
Rp906 billion

Syndicated financing
4 Islamic banks
PLN on project 35.000 Mega Watt Electricity Infrastructure
Rp4.3 trillion
THANK YOU