

# ISLAMIC FINANCE IN INDONESIA: CHALLENGES IN THE COMING YEARS

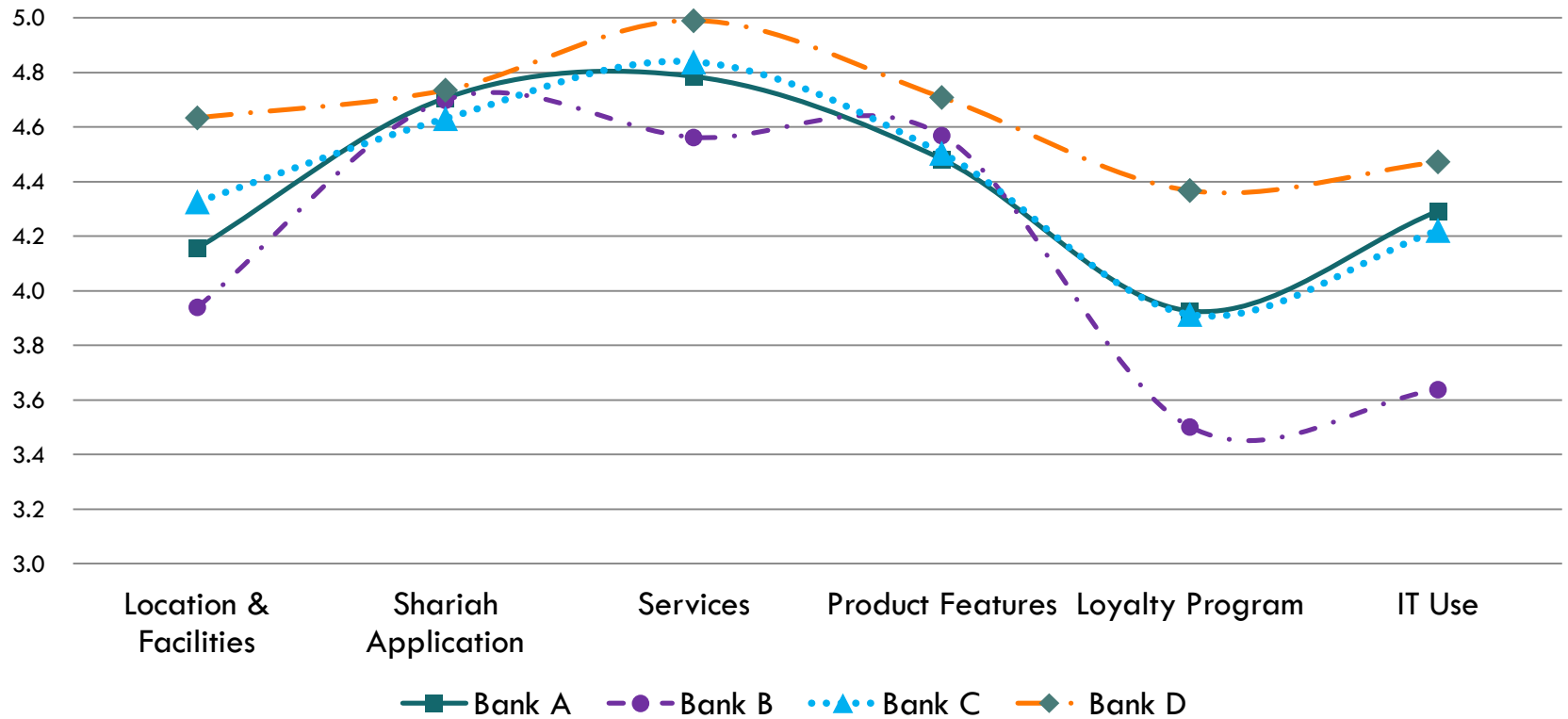
LUQYAN TAMANNI  
ISEFID

# OUTLINE

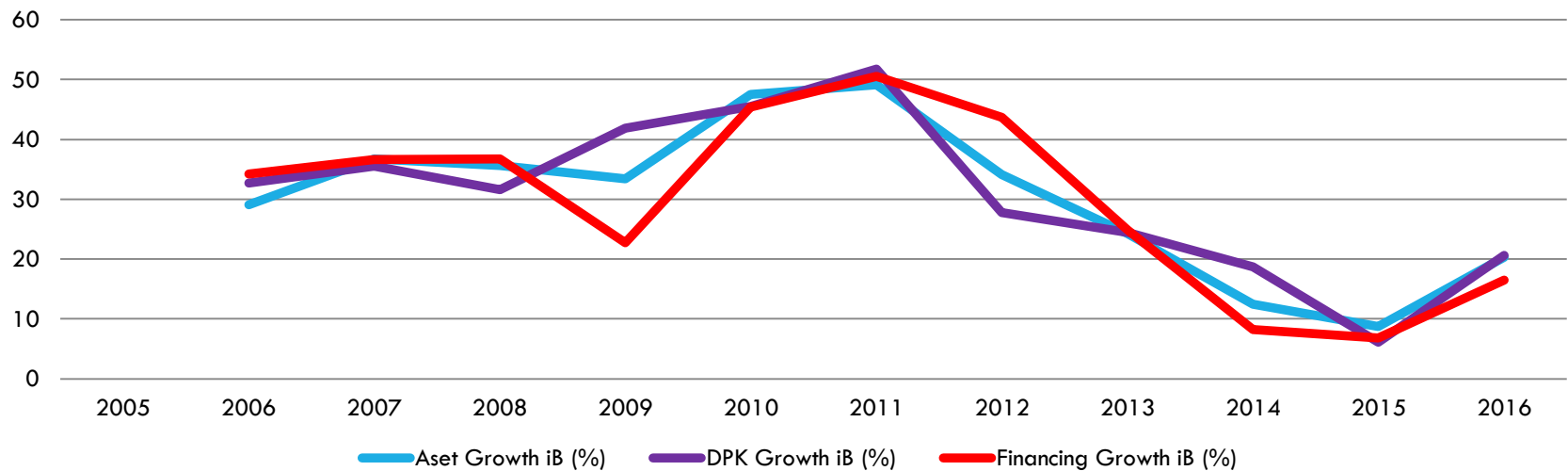


- State of the industry
- Key challenges ahead
- Some suggestions

# HOW TO MAKE CUSTOMERS HAPPY?



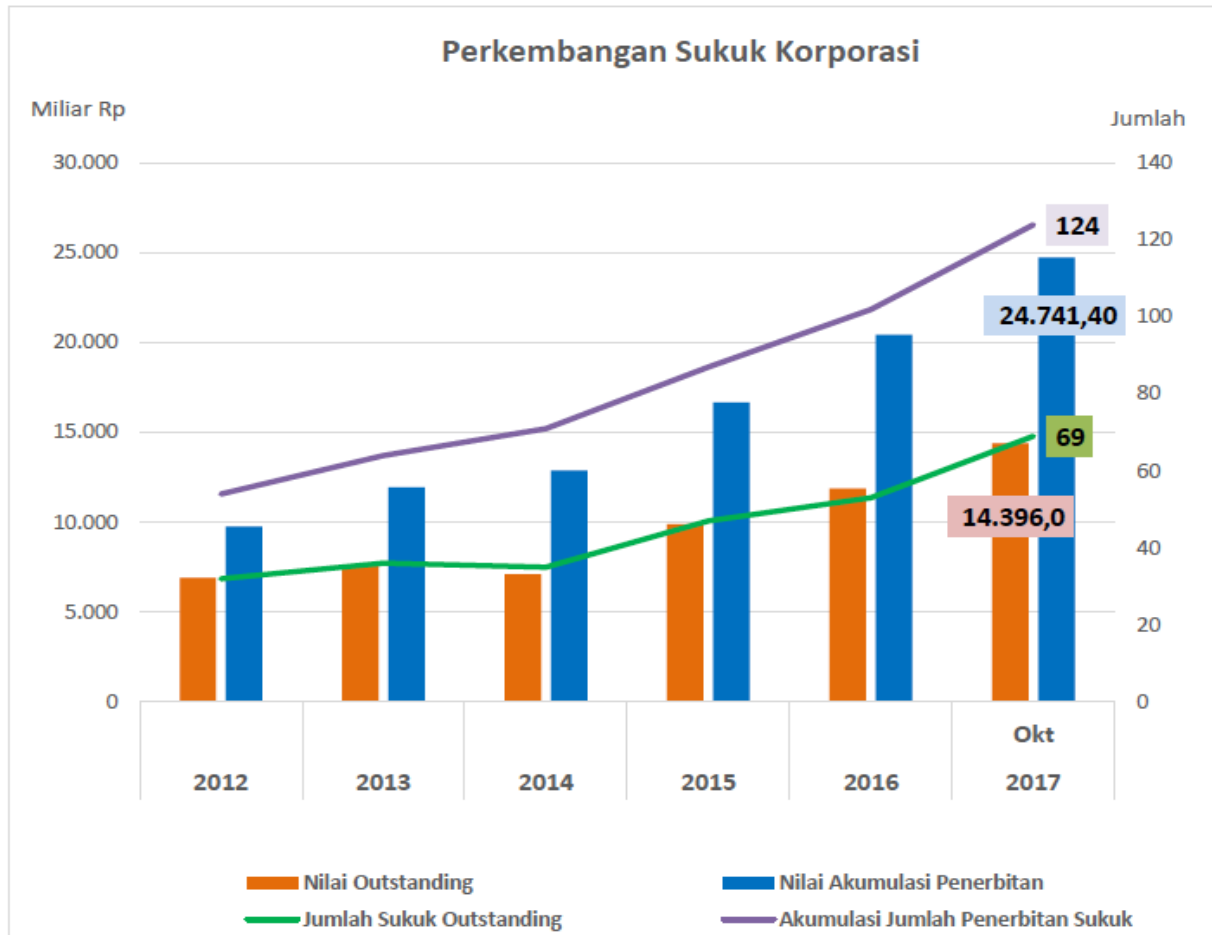
# ISLAMIC BANKING IN INDONESIA



The driving force behind Islamic banking growth has been deposits in the past four years, suggesting slow recovery in financing side.

Is business or real sector still on 'wait and see' mode, or is it still recovering?

# INDONESIAN CORPORATE SUKUK

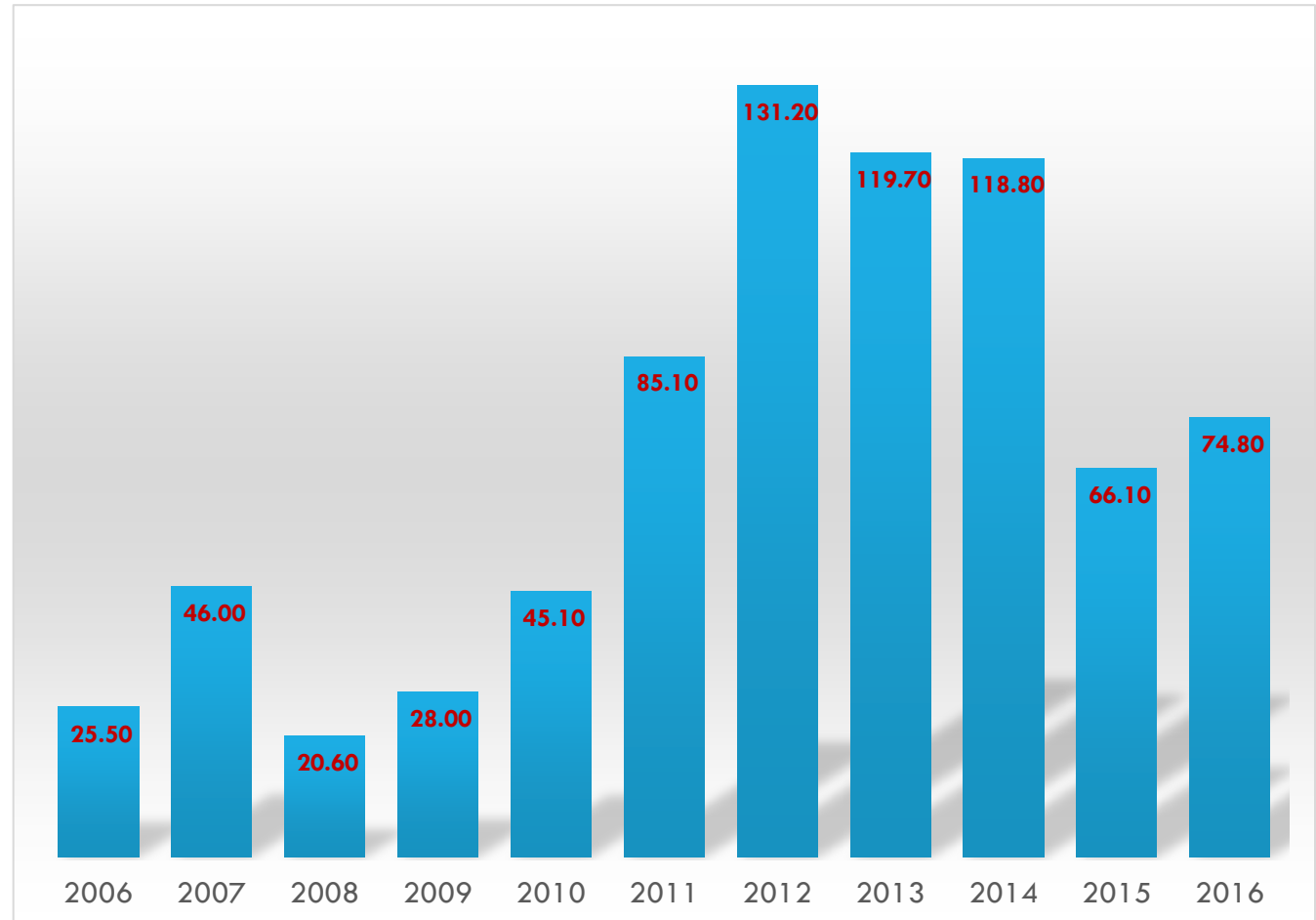


The good news is in the reemergence of corporate sukuk, in addition to the regularly high issuance of sovereign sukuk.

# GLOBAL SUKUK ISSUANCE



Indonesia will be the next force in global sukuk issuance.



# WHAT'S COMING: QUIET BEFORE THE STORM



## 1. Disruptive financial services

- Will be the main talking points in the next decade, but very little is being done by the industry

## 2. Mandatory 'spin off'

- All quiet at the moment. Will the industry comply with the law before its due?

## 3. 'A new normal'

- "Islamic finance in 2018: slow growth is the new normal" S&P Global Ratings

# 1. HOW DISRUPTIVE CAN IT BE?



Everybody talks about disruptive finance, but very few details are on the table:

- Will banks disappear?
- Do we want banks to disappear?

**Bloomberg** Markets Tech Pursuits Politics Opinion Businessweek

## Pandit Says 30% of Bank Jobs May Disappear in Next Five Years

By Chanyaporn Chanjaroen  
September 13, 2017, 10:57 AM GMT+7 Updated on September 13, 2017, 1:18 PM GMT+7

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#### This year 525 banks will shut: will yours disappear?

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# THE BATTLEGROUND



- Personal/consumer/micro financing
  - ✓ Crowd funding
  - ✓ Peer to peer (P2P) lending
- Payment services
- Personal insurance e.g. travel

## 2. FULL-FLEDGED VS UNIT



	2017	2018*	2019	2020	2021	2022	2023
Islamic Bank (BUS)	13	16	16	16	16	16	36
Islamic Banking Unit (UUS)	21	18	18	18	18	18	0
Total	34	34	34	34	34	34	34

- 21 Units to be transformed into full fledged Islamic Banks in the next 6 years.
- 5 units per year will make the transformation manageable.
- However, in 2018 only about 3 new BUS will be operational
- Will the industry waits to the last minutes, and create a tsunami of spin offs?



# REASONS TO DELAY SPIN OFF



- a. Capital requirements as BUS constitutes major investment for most banks with UUS to spin off.
- b. Large investment is needed to build new branch, ATM network, IT system and human resources (HR) to support business as BUS
- c. Time to design new business model, strategy, or marketing process for the new Islamic bank
- d. Maintaining unique risk profile and characteristics (10 types of risk vs 8 as conventional banks)
- e. Human resources requirement is higher, as well as difficult (and costly) to recruit.

# WHY UNIT IS MORE PREFERRED TO FULL FLEDGED?



- Part of a large network
- Cost efficiency
- Access to conventional branches nationwide

# HOW DIFFICULT CAN IT BE?



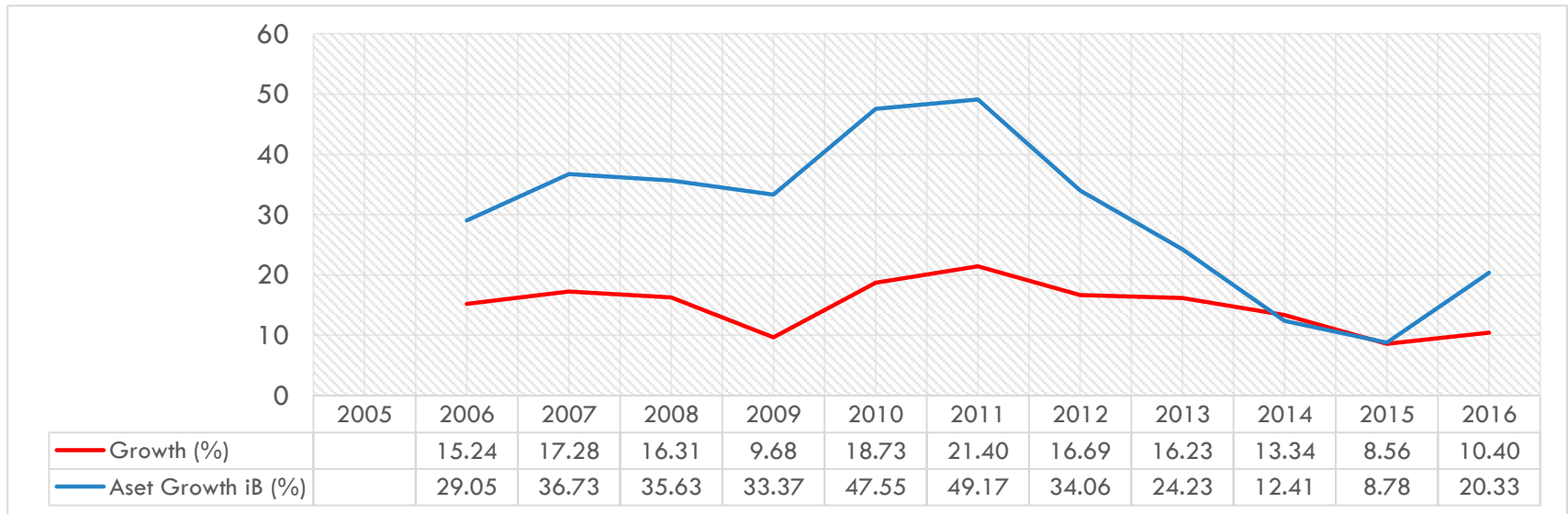
- Spin-off is a major corporate undertaking
- The cost is quite high
- The time it takes varies (8 to 18 months)

# SPIN-OFF OR CONVERSION TIMELINE



Islamic Bank	Initiation	Operating as Islamic Bank
Bank Muamalat	Established as full-fledged in 1991	Launched: 1/5/1992
Bank Syariah Mandiri	Acquisition of PT Bank Susila Bakti by Bank Mandiri: 8/9/1999	BI License: 25/10/1999 Launched: 1/11/1999
Bank Mega Syariah	Acquisition of Bank Umum Tugu by Mega Corpora & PT Rekan Investama in 2001	Conversion on: 27/7/2004 Operation: 25/8/2004
<b>Bank BRI Syariah</b>	Acquisition of Bank Jasa Arta by PT Bank Rakyat Indonesia: 19/12/ 2007	BI License: 16/10/2008 Launched: 17/11/2008
Bank BNI Syariah	Shareholders' approval: 2009	BI License: May 2010 Launched: June 2010
Bank Aceh Syariah	Spin-off decision: 2014 (qanun) Conversion decision: 25/5/2015 (RUPS)	OJK License: 1/9/2016 Launched: 19/9/2016

# 3. THE NEW NORMAL?



- The growth of iB sector recovered in 2016, has continued in the 2017. It will remain positive in the coming year, although much **lower** than it used to be.
- Islamic banks are projecting a growth rate between 8 to 12% in 2018, acknowledging the recovery is slow, and perhaps adapting to new reality.





### Pertumbuhan aset Asuransi Syariah dan proyeksi 2018 (%)

Sektor	2014	2015	2016	2017*	2018**
Asuransi Umum	12,24	14,85	26,54	22	18~21
Asuransi Keluarga	41,25	20,19	24,61	27	22~27

# WHAT'S NEXT?



- a. Investment in IT is a necessity for the survival of Islamic financial services industry. The challenges from fintech sector is real and eminent.
- b. There should be no discretion in spin off implementation i.e. allowing IFIs to postpone the process, or force a change in laws.
- c. The new normal is here, may be its time to adapt.

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# Islamic finance rides the storm

Clancy Yeates

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A thriving financial sector sounds like an oxymoron these days. Even Australia's banks – among the most profitable in the world – kept a fifth of this week's interest rate cut to cushion their margins. But there is one sector that has tongues wagging in the hubs of commerce: Islamic finance.

While the Western world's financial system has been imploding, this small but rapidly growing share of world capital has weathered the storm.



*Hopefully, the industry will survive yet another round of storm in the coming years....*



Terima kasih.