

BACK-TO-BASICS: OPPORTUNITIES FOR ISLAMIC FINANCE TO FLOURISH IN INDONESIA

Day 1

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DISCUSSION INTRODUCTION

BACK-TO-BASICS: OPPORTUNITIES FOR ISLAMIC FINANCE TO FLOURISH IN INDONESIA

The world has changed. How our industry — Islamic banking, finance and investment — chooses to respond to these changes may be a generation-defining moment. Can Islamic finance in Indonesia use this opportunity to become truly responsible, inclusive and ethical, while at the same time contributing to the country's growth and development? How can we as an industry ensure this is substance over form on a permanent basis? What opportunities do the UN Principles for Responsible Banking offer Islamic financial institutions in Indonesia? How can the core values of Islamic finance be further applied to sustainable and socially responsible finance and investment strategies? What is an accurate assessment of the situation with bank consolidation in Indonesia, and what will be the best course of action for the Islamic commercial banking industry? We ask a respected panel for a new roadmap to success for Islamic banking, finance and capital markets in Indonesia.

YOUR PANEL



HANIM HAMZAH
Regional Managing Partner
ZICO Law Network



AHMAD SHAHRIMAN MOHD SHARIFF
CEO, CIMB Islamic



ANGELINE CHOO
Head of Southeast Asia and Greater China, S&P Dow Jones Indices



DR HURRIYAH EL ISLAMY
Executive Board Member, Badan
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NYIMAS ROHMAH
Deputy Director of Islamic Banking
Regulation, Financial Services Authority
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DR SUTAN EMIR HIDAYAT
Director of Islamic Economy Supporting
Ecosystem, National Committee for
Islamic Economy and Finance



IFN INDONESIA: THE GIANT AWAKENS

Indonesia is an Islamic finance giant the world has long been waiting to awaken, and despite the COVID-19 crisis putting the brakes on economic growth, the unusual conditions this year have not diverted the country's Islamic finance ecosystem from its path of continuous expansion.

With over 225 million Muslim citizens, a new 10-year Islamic finance national masterplan, a dedicated national Shariah finance committee headed by the president himself and a new Hajj fund agency, the future looks bright. IFN Indonesia Forum 2020, held online this year for obvious reasons, was characterized by its tone of optimism and ambition: with regulators, practitioners and observers alike enthusiastic both by the progress that

has been made so far, and the outlook for the coming year.

The first day launched with a keynote address from Arif Baharudin, the assistant minister for financial services and capital market policy and regulation at Indonesia's Ministry of Finance, who was candid about the impact that COVID-19 has had on Indonesia's economy (with a GDP contraction of 5.32%, the lowest since the first quarter of 1999, a decline in international trade and a weakening rupiah) but painted an optimistic picture for recovery.

A new law passed earlier this year has given the government the power to widen its budget deficit beyond the usual 3% of the GDP threshold, and allows the central bank to directly

purchase government bonds, which lays the foundations for a strong and sustained economy stimulus package, along with a variety of tax incentives and bank support programs to boost growth.

Things are already looking up — the equity markets are moving upwards, the rupiah has held relatively steady since August and the yield on government bonds is falling again, indicating a more positive outlook. "Close coordination is key to the success of mitigating risk and maintaining stability in the financial system," explained Arif. "Islamic finance is essential to support the handling of COVID-19, and the government of Indonesia has a strong commitment to developing the Islamic economy and financial market." ☺



BACK TO BASICS

Following on from Arif, IFN Indonesia was delighted to welcome Hanim Hamzah, the regional managing partner at ZICO Law Network, to host an in-depth panel session titled 'Back to Basics', a deep dive on how best to leverage the opportunities for Islamic finance within Indonesia, and how the industry should mobilize in response to recent challenges.

The discussion centered around a number of key pillars: including how Islamic institutions are responding to the generation-defining challenge of COVID-19, how Indonesia is leveraging the growing interest in environmental, social and governance (ESG) investing, how the Halal economy in the country can best be developed and how Islamic social finance such as Zakat is becoming a major contributor to economic improvement.

"According to PwC, Indonesia is projected to be fourth-most powerful economy in the world (after China, India and the US) by 2050," pointed out Dr Sutan Emir Hidayat, the director of the Islamic Economy Supporting Ecosystem at the National Committee for Islamic Economy and Finance. "So yes, the giant is awakening."

The Presidential Regulation 28, issued in February 2020, transformed the National Committee for Islamic Finance to the National Committee for Islamic Economy

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— Dr Sutan



and Finance — an important distinction, and one that broadens the focus to the wider Halal industry. The focus for the new ecosystem is on promoting and strengthening Halal production, strengthening Islamic financial services, optimizing Islamic social finance through tools such as Zakat, promoting Islamic human resource talent on the global stage and harmonizing regulations related to the Islamic economy.

As Nyimas Rohmah, the deputy director of Islamic banking regulation for the Financial Services Authority of Indonesia or Otoritas Jasa Keuangan (OJK), pointed out, although Indonesia has fared rather better through the COVID-19 crisis than many other countries, cash remains king as investors stay wary. "We need to support the real economy, and that

"Although Indonesia has fared rather better through the COVID-19 crisis than many other

countries, cash remains king as investors stay wary"

– Nyimas



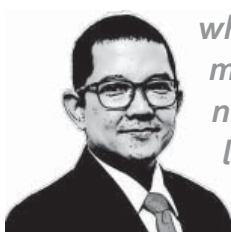
means we need to maintain the stability of the financial sector," she explained. Consolidation is also on the agenda for Islamic banks. "We want to increase size and capacity, so Islamic banks can be more efficient and gain competitive advantages," said Nyimas. "We also want more Islamic institutions to support the development program, especially in infrastructure financing."

CIMB Islamic CEO Ahmad Shahrman Mohd Shariff, CEO of CIMB Islamic, pointed out that Islamic banks in the region have taken a bigger hit during the coronavirus crisis due to their relatively larger exposure to the SME and consumer segments. "There is also a bigger impact on Islamic banks simply due to structural funding," he noted. "Most Islamic banks are funded through the wholesale market. That reliance on the wholesale market needs to be looked at, and needs to be fixed. COVID-19 has pushed Islamic banks to diversify their sources of income, and look at alternative methods of financing."

But Islamic banks are also showing more proactiveness in how they deal with their customers, with a greater obligation to engage in times of trouble. The Zakat element is a key differentiator in times of crisis — according to Arif, the collection of Zakat in Indonesia during Ramadan 2020 was up 56% from last year, and the social

"Most Islamic banks are funded through the wholesale market. That reliance on the wholesale market needs to be looked at"

– Ahmad



tools of Islamic finance will be a key focus for the government going forward.

Another notable opportunity is the potential inherent in the country's Hajj fund, Badan Pengelola Keuangan Haji (BPKH), which Dr Hurriyah El Islamy, an executive board member of the BPKH, predicts could be a catalytic engine of change. As at the end of August, the fund stood at a massive IDR140 trillion (US\$9.38 billion), with fresh funds of around IDR10 trillion (US\$670.09 million) coming in each year. It is the only government-related fund allowed to invest abroad, and with a broad investment remit (including Sukuk, foreign exchange, gold, direct investment and "other investments" which basically means — everything else) it has both freedom and influence. Barely three years old (formed back in December 2017), it is now finally starting to ramp up its investment horizons, and

"We want to be an engine of change, not only within Indonesia but on the global stage"

– Dr Hurriyah



things are looking promising. "BPKH is a giant that needs to wake up," said Dr Hurriyah. "We can optimize the use of Islamic financial instruments, enter into partnerships with Islamic banks, direct Musharakah ventures, [and] improve poverty to benefit the people. We want to be an engine of change, not only within Indonesia but on the global stage."

"The market expects more innovation in Shariah compliant funds"

– Choo



Angeline Choo, the head of Southeast Asia and Greater China at S&P Dow Jones Indices, highlighted the tremendous outperformance of Shariah benchmarks, which in the first half, outperformed conventional indices by nearly 10%. Notably within Indonesia, activity among Indonesian fund managers is strong, both active and passive. "The market expects more innovation in Shariah compliant funds, and we are working with issuers to develop more complex products, including Shariah smart beta, applying Shariah filters on equity factors and building Shariah multi-asset products, combining Shariah equity and Sukuk, as well as combining Shariah equity and ESG scores," said Choo.

Overall, the mood was overwhelmingly positive and expectations for the future are high. "I'm very excited about Indonesia," said Ahmad. "It's all about the Islamic communities here. There are 373 Islamic universities, almost 60,000 Islamic schools, 165 Islamic hospitals. These communities are the true supporters of Islamic finance, and they need to start the engine. Indonesia doesn't even need an external market. They just need to get things going internally, and that can be the engine that powers it globally — similar to how China's domestic market fuels its companies to go out and export globally. Indonesia has that potential, it just needs to go out and start the engine."

To hear the full discussion, or to follow up any of the above points in more detail, please visit www.redmoneyevents.com/event/ifnindonesia, where all content is available to view free of charge. ☺

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