



**BANK INDONESIA**

# The Role of Regulators in Growing the Islamic Banking Sector

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**Ahmad Buchori**

**Deputy Director**

**Policy Review and International Standard Division Head  
Islamic Banking Department - Bank Indonesia**

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**Islamic banking and finance is the world most attractive finance phenomenon** > Most of the international organization and most of countries have given much attention on this.

- World Bank, IMF, United Nations & Vatican
- Countries in Asia such as Japan, South Korea, Singapore and China
- Western countries such as USA, United Kingdom, France and Germany.

- Islamic bank was established in Indonesia since 1992 – legalized by Banking Act No. 7 Year 1992 and initiated by est. Bank Muamalat Indonesia (BMI).
- The development of Islamic banking in Indonesia is driven by 3 unique factors:
  - a. social demand particularly Moslem people
  - b. the government, central bank and parliament support
  - c. national heritage
- Some specific operations which make it different from others:
  - a. 77% allocation of funds to SMEs.
  - b. average FDR 101% in the last two decades.
  - c. the investment based financing (Mudarabah and Musharakah financing) tends to pace an increasing trend.

# Overview on Indonesian Islamic Banking & Finance

## Indonesian Islamic Banking Main Indicators

shariah Comm Banks	2	3	5	11
shariah Business Unit	3	20	25	24
shariah Rural Banks	80	105	131	155
Offices	102	693	1.069	2.380
Assets	2.7 T	26.7 T	49.5 T	149 T
Deposits	1.8 T	20.6 T	36.8 T	116.9 T
Financing	2.0 T	20.4 T	38.2 T	106.5 T
Deposits Account	0,33 mio	1,99 mio	3,8 mio	8,7 mio
	2001	2006	2008	2012 (Feb)

Immediate problems that need to be solved :

- a. the human resources gap both in quantity and quality.
- b. the innovation of products and services
- c. the continuity of dissemination and public education

Other challenges:

- a. legal infrastructure for Islamic banking
- b. product codification and global regulations standard
- c. '*real rate of return*' references

- ❑ **Strengthening iB intermediation function into productive economic sector**  
Expand the capacity and more active in productive sector (besides in services and consumptions), and if possible in financing the MP3EI (*Master plan* of Indonesia's development growth and expand).
- ❑ **Developing and enhancing of iB Product Development**  
*Updating* product codification and licensing process, product development strategic plan
- ❑ **Strengthening synergy with holding bank but still develop the iB infrastructure**  
Holding bank and its iB should together identify problem and solution with *action plan* to strengthen the synergy by accommodate the holding bank and iB infrastructure development.
- ❑ **Strengthening education and communication of iB by focussing in parity and distinctiveness**  
iB “inclusive” image to be more communicated, also education of the *functional benefits* and product variation of iB by focussing in *parity* and *distinctiveness*.
- ❑ **Strengthening *good governance* and risk management of iB business activities**  
*i.e. Screening* management iB through its character, integrity and competency, then regulation of new product and activities for prudential purposes to protect customers.
- ❑ **Strengthening supervisory policy**  
Improving supervisory infrastructure such as : panel forum, integrated of supervision system, improving bank's reporting and accounting standard.

# End of Presentation Thank You.

Islamic Banking Department, Bank Indonesia  
MH Thamrin Street #. 2 R. Prawiro Building, 21-22 Floor, Jakarta 10350  
Fax. (021) 350 1989 / 1990  
<http://www.bi.go.id>  
E-mail : [dbps@bi.go.id](mailto:dbps@bi.go.id)