



BANK INDONESIA

# Recent Development of Islamic Financial Services Industry: *Country Case Indonesia*

Presentation for  
Global Islamic Finance Financial Forum  
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## Islamic Banking Development to Support a High-and-Quality Economic Growth for the Prosperity of Indonesia



The Republic of Indonesia is the world's largest archipelagic nation, consisting of over 17,508 islands stretching 5,120 kilometres from east to west and 1,760 kilometres from north to south.

Indonesia has a population of about 227 million (2008 figures) of which about 90% are Muslims. Indonesia is thus home to the world's largest Muslim population and is the world's fourth most populated country after China, India and the United States.



Population (2009): 230 million  
GDP Growth (2009): 4.5% . GDP per capita (2008): USD 2,254



# Background and Development Policy

## Islamic Financial Market Potential....

- Thought that Islamic Banking Industry play as a major industry in the Indonesian Financial Sector, The Central Bank of Indonesia aspires to develop this sector that will support sustainable economic and social prosperity by enforcing market-based system, prudent management, and continuously encourage the Islamic banks to increase its financial performance and service excellent while maintaining its consistency in complying to *sharia principles*.
- Islamic banking sector has been grown at compounded annual growth rate (CAGR) above 35% in the last 5 years.
- Indonesia Government dan Parliament has strenghten the legal foundation to flourish and develop Islamic finance to the next step:
  - ✓ Law on Shariah Sovereign Bond (RI Sukuk) 2008: a necessary legal foundation to issue RI Sovereign Sukuk,
  - ✓ Islamic Banking Law 2008: strengthening the legal foundation for Islamic Banks
  - ✓ Amendment of Tax Laws which also rules on tax neutrality on all sharia-based financial transactions in 2009.



# The size of Indonesia Islamic Finance Industry

- Indonesia evolve to dual financial system which Islamic financial services co-exist with its conventional counterpart in all financial sub-sectors

## Islamic Financial Services Industry – Indonesia

A. Islamic Banking (Sep-2010)		Unit
Commercial Bank		10
Conventional Bank with IBUs		23
Rural Bank		146
B. Islamic Non Bank Financial Inst.**)		
Islamic Insurance (Takaful)		
Islamic Life Insurance		2
Islamic General Insurance		1
Life Insurance with IBUs		13
General Insurance with IBUs		19
Islamic Re-Insurance		3
Islamic Mutual Fund		40
Islamic Pension Fund		1
C. Islamic Capital Market **)		
Corporate Sukuk	Issuance:	29
	Outstanding:	Rp 4.38 Trillion
RI Sovereign Sukuk	Wholesale (Rp)	Rp 4.70 Trillion
	Retail (Rp)	Rp 5.56 Trillion
	RI Global Sukuk	US\$ 650mio

\*\*) data of Islamic Non Bank and Capital Market as per Dec 2009 – Source MoF RI

- Size of Islamic-type of each class of financial services:  $\pm$  2% to 7% of the industry size.
- However the Islamic finance industry have high rate of growth and huge potential demands. Islamic banking asset grew 35% p.a. during last 6 years (2005-2010).

# Indonesian Sukuk Market

## Sukuk Indonesia



Sumber : IFIS

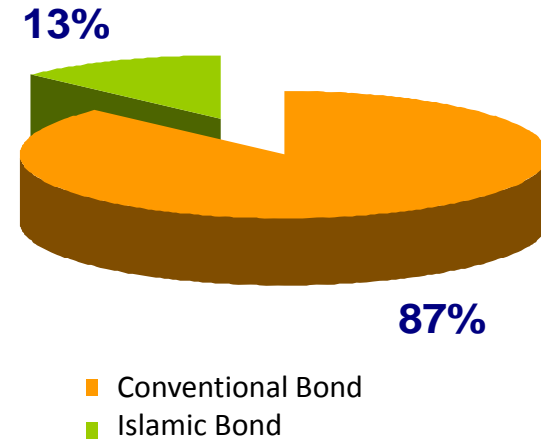
**Corporate Sukuk as per Dec'09:** 22 corporate Islamic bonds under mudharabah and ijarah contract. Total amount of issuance is **USD83.8 million**, or approximately **4%** from total Bonds issuance value

### National Islamic Securities (SBSN):

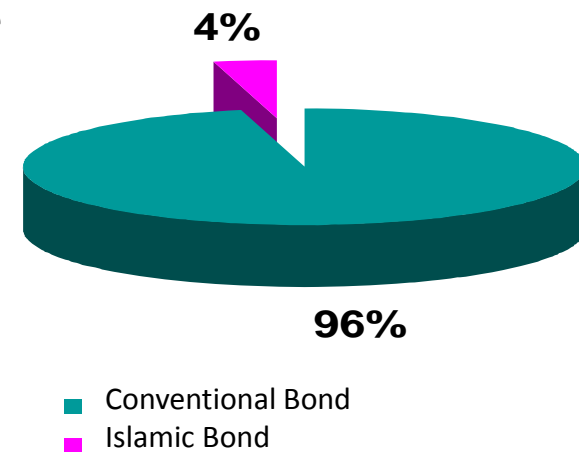
- 1) Indonesian Sovereign Sukuk IFR-0001 & IFR-0002
- 2) Indonesian Retail Sukuk – SR001
- 3) Indo-Sukuk Al Ijarah - RI Global Sukuk

**Islamic Mutual Funds:** 36 (consist of equity funds, fixed income funds, and balanced funds). The total Net Asset Value (NAV) is IDR1.8 trillion (**USD163.64 million**), approximately 3.5% of total mutual fund NAV

## Number of Sukuk



## Value of Sukuk



# Islamic Banking Expansion

	2009	Agst 2010
<b>Islamic Bank</b>		
Islamic Commercial Bank	6	<b>10</b>
Islamic Bank Unit	25	<b>23</b>
Islamic Rural Bank	138	<b>146</b>
ICB & IBU Offices	1.258	<b>1.624</b>
Offices Growth		<b>40,2%</b>

Office Channeling of Islamic Bank

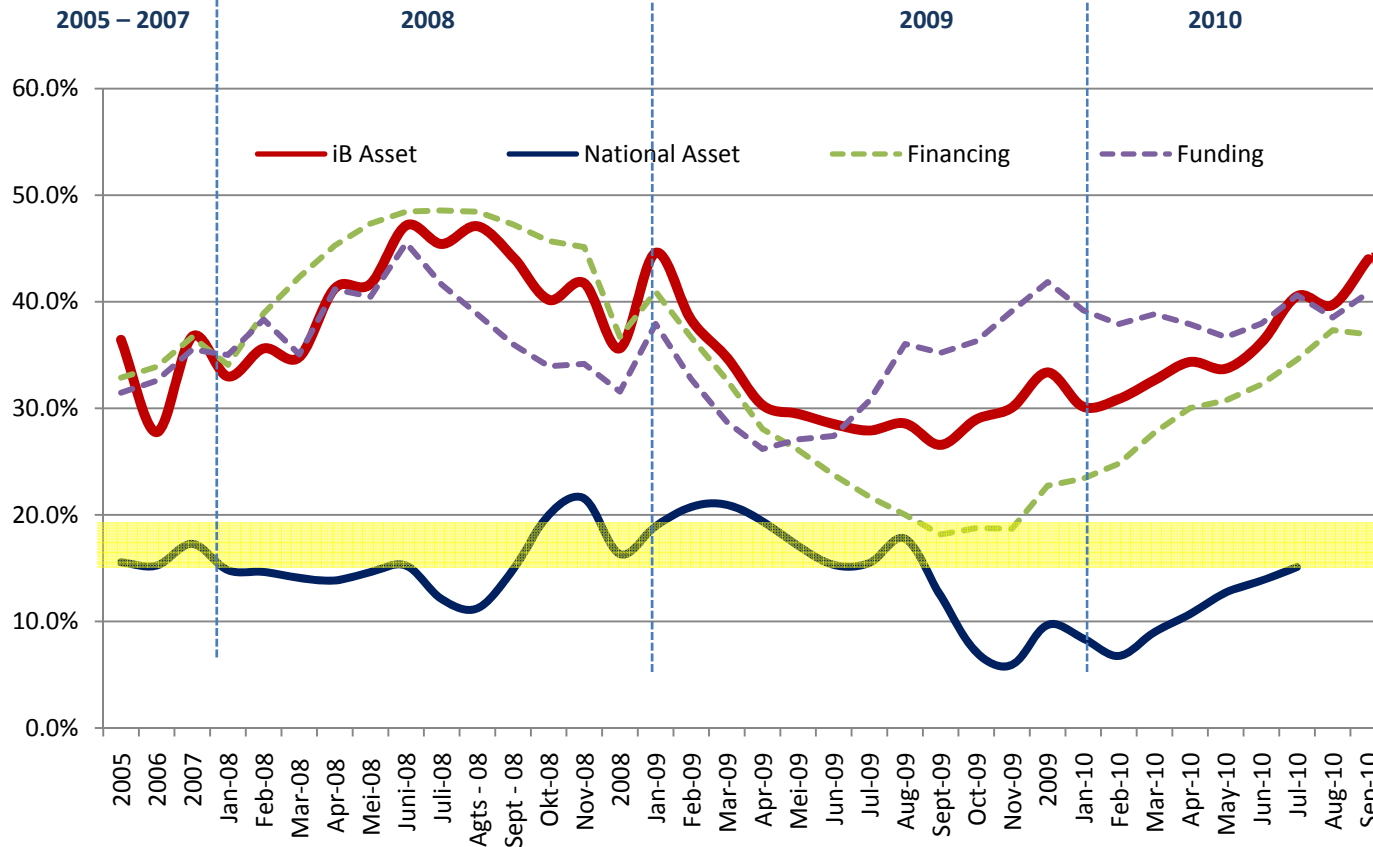


Marketing & Promotion Grand Strategy

Islamic Bond (Sukuk) Act

Islamic Banking Act

Tax Neutrality Act



**Expansion!!!**  
 Expected development based on New Development Policy

Average growth of Global Islamic Finance (15 – 20%)

# Attraction Strategy for Expansion

- Office Channeling of Islamic Banking through the Islamic Bank Unit
- New image program of Islamic banking → "Islamic bank, more than just a bank "( beyond banking)
- Promotion of Islamic banking products by using Indonesian terms
- Product development program to deliver the uniqueness of Islamic Banking
- Service quality enhancement supported by competent human resources



# The Challenges

- Product development → Product existing is still limited
- Human resources → the growth of islamic business vs HR competencies
- Policy synchronization between the authority → Central Bank, sharia board, and Government (for example : Tax office)





## End Note

- ❖ The existence of Islamic financial industry has become more and more significant as indicated by the growth in terms of assets size, deposits and the coverage of the financial services to the customers. In Indonesia, the Islamic financial industry has become additional pillar to sustain the economic development and have taken place in many fronts.
- ❖ The Indonesian Islamic banking industry continues to show strong performance which has annual growth  $\pm$  35% during last 6 years. The business volume reached USD8.5 billion, but only account for 3% share of the national banking industry.
- ❖ In the future, government of Indonesia have plan to diversify source of financing, including development of other Islamic instruments, i.e : Islamic T-Bills, Project Financing-based Sukuk, Private Placement Sukuk

End of Presentation  
Thank You.

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