Accelerating Sharia Finance Development in Indonesia

HARYADI
The 6th Meeting of the COMCEC Financial Cooperation Working Group
17-18 March, 2016
Ankara - Turkey

Ministry of Finance, Republic of Indonesia
Outline

- Sharia Finance Opportunities in Indonesia
- Regulation Support
- Sharia Finance Assets
- Islamic financial development: Key statistics
- Challenges
- Acceleration Strategies
Sharia Finance Opportunities in Indonesia

- Indonesia is the biggest Muslim population country
- Biggest GDP among OIC member countries
- Relatively stable political situation
- Market-driven sharia market development
- Government and financial regulators commitment in developing Islamic finance

### World Moslem Population in 2012

<table>
<thead>
<tr>
<th>Country</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morocco</td>
<td>31,940,000</td>
</tr>
<tr>
<td>Algeria</td>
<td>34,730,000</td>
</tr>
<tr>
<td>Turkey</td>
<td>71,330,000</td>
</tr>
<tr>
<td>Iran</td>
<td>73,570,000</td>
</tr>
<tr>
<td>Egypt</td>
<td>76,990,000</td>
</tr>
<tr>
<td>Nigeria</td>
<td>77,300,000</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>133,540,000</td>
</tr>
<tr>
<td>Pakistan</td>
<td>167,410,000</td>
</tr>
<tr>
<td>India</td>
<td>176,190,000</td>
</tr>
<tr>
<td>Indonesia</td>
<td>209,120,000</td>
</tr>
</tbody>
</table>

### Gross Domestic Product

Source: World Bank
Regulation Support *

Development of Economic and Shariah Finance Sectors

Act No. 8/1995: Capital Market

Act No. 19/2008: Sovereign Sukuk

Act No. 21/2008: Sharia Banking

Act No. 23/2011: Management of Zakah

Act No. 34/2014: Management of Hajj Funds

Act No. 40/2014: Insurance

* In addition to implementing rules and regulations
Islamic Banking
- Total Asset Rp296 trillion^ 
- 12 Islamic Bank 
- 22 Islamic Banking Unit 
- 163 Islamic Rural Bank 
  
  • Per December 2015

Non Islamic Banking Sectors
- Total Asset Rp64,8 trillion^ 
- 22 Islamic Non Banking 
- 88 Unit of Non Islamic Banking Sectors 
  
  • Per December 2015

Capital Market
- SBSN (govt. sukuk) issued: Rp288 trillion^ 
- Corporate Sukuk issued: Rp14,48 trillion^ 
- NAV of Sharia mutual funds Rp10 trillion^ 
- 331 Islamic securities listing 
  
  • per September 2015

^ 1 USD= Rp 13,000
## Sharia Finance Assets (2)

(trillion Rp^)

<table>
<thead>
<tr>
<th>Type</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Dec 2015</th>
<th>MARKET SHARE Sep 2015 Per Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sharia Banking</td>
<td>174,09</td>
<td>233,13</td>
<td>272,34</td>
<td>296</td>
<td>4,83%*</td>
</tr>
<tr>
<td>Sharia Insurance</td>
<td>13,1</td>
<td>15,38</td>
<td>22,36</td>
<td>23,89*</td>
<td>5,10%*</td>
</tr>
<tr>
<td>Sharia Financing</td>
<td>22,66</td>
<td>28,74</td>
<td>23,77</td>
<td>22,35*</td>
<td>5,54%*</td>
</tr>
<tr>
<td>NAV Sharia Mutual Funds</td>
<td>8,05</td>
<td>9,43</td>
<td>11,49</td>
<td>10,11</td>
<td>4,00%</td>
</tr>
<tr>
<td>Outstanding of Sovereign Sukuk</td>
<td>134,15</td>
<td>176,84</td>
<td>222,72</td>
<td>288,20</td>
<td>13%</td>
</tr>
<tr>
<td>Capitalization of Sharia Stocks</td>
<td>2.451,33</td>
<td>2.557,85</td>
<td>3.060,28</td>
<td>2449,10</td>
<td>55,98%</td>
</tr>
</tbody>
</table>

*Per November 2015

Source: Financial Services Authority, Ministry of Finance

^ 1 USD= Rp 13,000
Key statistics: Sharia Banking

**Islamic Bank and Islamic Banking Units**

<table>
<thead>
<tr>
<th>Year</th>
<th>Profit (RHS)</th>
<th>Financing</th>
<th>Third Party Funds</th>
<th>Asset</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>50</td>
<td>100</td>
<td>150</td>
<td>200</td>
</tr>
<tr>
<td>2011</td>
<td>100</td>
<td>150</td>
<td>200</td>
<td>250</td>
</tr>
<tr>
<td>2012</td>
<td>150</td>
<td>200</td>
<td>250</td>
<td>300</td>
</tr>
<tr>
<td>2013</td>
<td>200</td>
<td>250</td>
<td>300</td>
<td>350</td>
</tr>
<tr>
<td>2014</td>
<td>250</td>
<td>300</td>
<td>350</td>
<td>400</td>
</tr>
<tr>
<td>2015</td>
<td>300</td>
<td>350</td>
<td>400</td>
<td>450</td>
</tr>
</tbody>
</table>

**Banking Performance**

<table>
<thead>
<tr>
<th>Year</th>
<th>FDR</th>
<th>LDR</th>
<th>OER-S</th>
<th>OER</th>
<th>ROA-S(RHS)</th>
<th>ROA(RHS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
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<td>2012</td>
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<td>2013</td>
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<tr>
<td>2014</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dec 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Saving account and Financing account**

- **Billion Rp**
  - 2009: 4
  - 2010: 8
  - 2011: 12
  - 2012: 16
  - 2013: 20
  - 2014: 24
  - Dec 2015: 28

**Islamic Financing Aqad**

- **Billion Rp**
  - Murabahah: 7
  - Qardh: 2
  - Ijarah: 1
  - Musyarakah: 1
  - Mudharabah: 0

*Dec 2015

Source: Financial Services Authority
### Key statistics: Sharia Insurance

<table>
<thead>
<tr>
<th>No</th>
<th>Companies</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sharia Life Insurance</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>Sharia Life Insurance Unit</td>
<td>17</td>
<td>17</td>
<td>17</td>
<td>17</td>
<td>17</td>
<td>19</td>
</tr>
<tr>
<td>3</td>
<td>Sharia General Insurance</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>Sharia General Insurance Unit</td>
<td>20</td>
<td>18</td>
<td>20</td>
<td>24</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td>5</td>
<td>Sharia Reinsurance Unit</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td>45</td>
<td>43</td>
<td>45</td>
<td>49</td>
<td>48</td>
<td>51</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>No</th>
<th>Indicators</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Total Asset</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sharia General Insurance</td>
<td>1.342</td>
<td>1.927</td>
<td>3.223</td>
<td>3.869</td>
<td>3.310</td>
<td>3.786</td>
</tr>
<tr>
<td></td>
<td>Sharia Reinsurance Unit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.003</td>
<td>1.119</td>
</tr>
</tbody>
</table>

| 2   | Total Investment                |       |       |       |       |       |       |
|     | Sharia General Insurance        | 895   | 1.338 | 2.241 | 2.758 | 2.258 | 2.539 |
|     | Sharia Reinsurance Unit         |       |       |       |       | 847   | 955   |

Source: Financial Services Authority

* 1 USD= Rp 13,000
Key statistics: Sharia Capital Market

**Sharia Mutual Funds Development**

**Corporate Sukuk Issued and Its Market Share**

**Capitalization of Stocks**

Source: Financial Services Authority
Key statistics: Sovereign Sukuk

Government Bonds and Sovereign Sukuk per September 2015

Sovereign Sukuk in terms of Type per September 2015

Sovereign Sukuk in terms of Currency per September 2015

Sovereign Sukuk In terms of Tradability

Source: Ministry of Finance
Challenges (1)

- Competent Human Resources
- Innovation of product supported by sharia financial insight and knowledge
- Market research based conducive regulation to support product innovation
- Quality service and sharia infrastructure enhancement
- Services to productive SME
- Increase community understanding of sharia financial products
- Increase community understanding of sharia financial products
Challenges (2)

- Innovation of product supported by sharia financial insight and knowledge
- Market research based conducive regulation to support product innovation
- Competent Human Resources
- Quality service and sharia infrastructure enhancement
- Services to productive SME
- Increase community understanding of sharia financial products
Development Strategies: Strategic level

- MASTERPPLAN OF ISLAMIC FINANCE ARCHITECTURE (2014)
  - A result of study by National Development Planning Agency and IDB
  - To synergize Islamic finance development strategies prepared by stakeholders, such as Bank of Indonesia, FSA, and MoF.
- Declaration of President Joko Widodo to accelerate the development of Islamic finance in Indonesia (January 2016)
  - Establishment of National Committee on Islamic Finance
    - Chair: President
    - Vice chair: Vice President
    - Committee members: Governor of BI, Commissioner of FSA, Commissioner of IDIC, Minister of Finance, Coordinating Minister of Economic Affairs, Minister of Cooperatives and SMEs, Minister of Religious Affairs, Minister of SOEs, Chairman of Indonesian Ulama Council.
Development Strategies: Operational level

Creating equal level of playing field between sharia and conventional industry

- Review/amendment on several tax rules and regulation

Issuing regulations to support sharia financial development

- Codification of regulations in Islamic financial products
- More opportunity for Sharia banks as salary payment banks for govt. employees, soldiers, and police forces.

Issuing sukuk instruments to add portfolio options of investment

Harmonizing fiscal policy to sharia financial services to create the environment for the economy while keeping financial system and fiscal stability

- Governors meetings
- Exhibitions
- Seminars
- Social programs

1st Annual Islamic Finance Conference: Islamic Infrastructure Financing and Financial Inclusion Strategy

- Jakarta, 17 May 2016
- IDB, IRTI, Ministry of Finance, Bank of Indonesia, Financial Services Authority, Indonesian Deposit Insurance Corporation, and Indonesian Association of Islamic Economics Experts.
- Local and international speakers
- Regulators, policy makers, industry, academics.
THANK YOU

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