



MINISTRY OF FINANCE  
THE REPUBLIC OF INDONESIA

# DIVERSIFICATION OF ISLAMIC FINANCIAL INSTRUMENTS: CASE OF INDONESIA

HARYADI

Center for Financial Sector Policy

## OUTLINE

- 1. Islamic Finance Industry Landscape in Indonesia**
- 2. The Development of Islamic Finance Industry in Indonesia**
- 3. Islamic Finance Instruments: Development Strategies**





# 1. Islamic Finance Industry Landscape in Indonesia

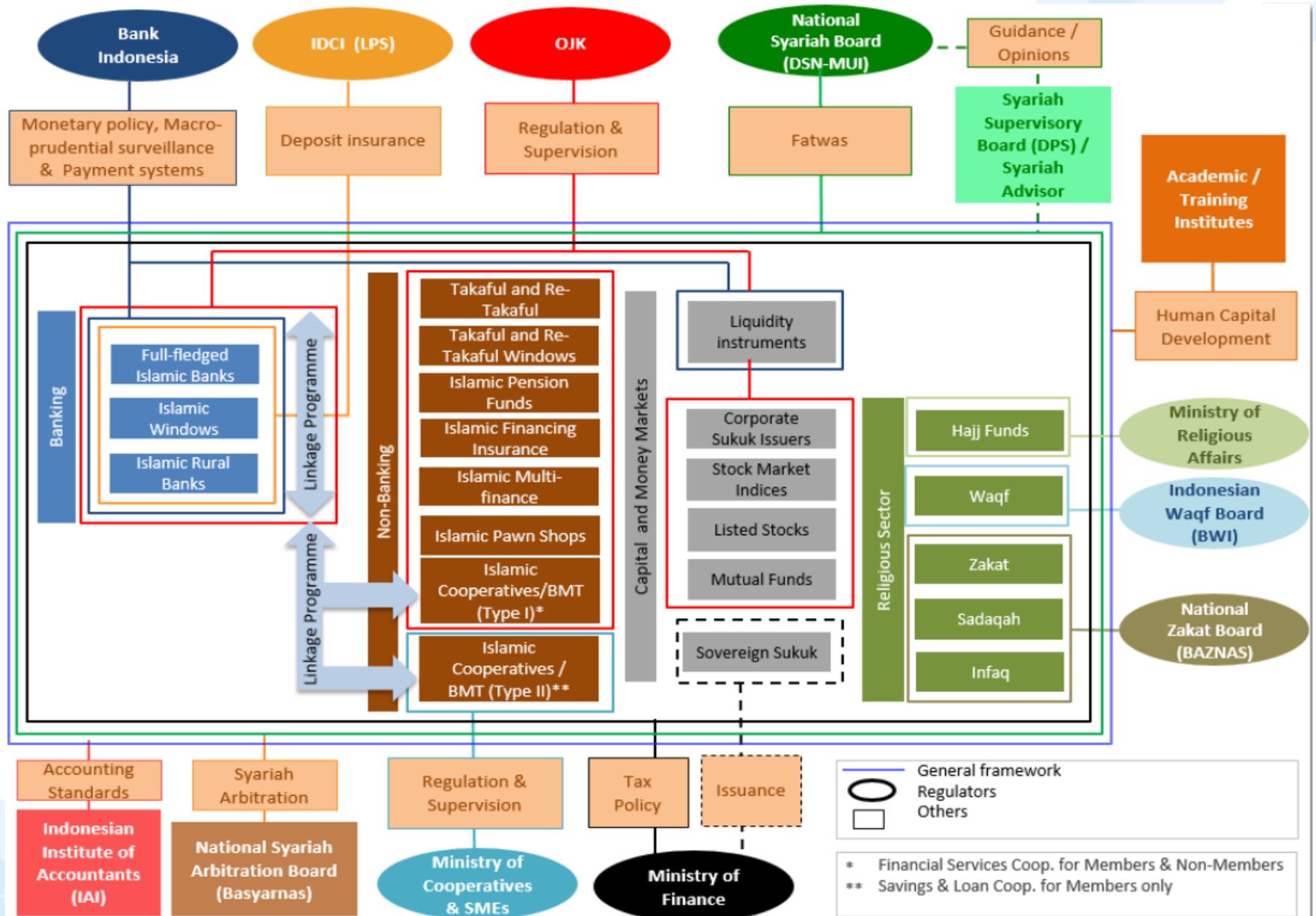


# Indonesia



**Having the largest Muslim population in the world, Indonesia do possess some hidden potentials that need to be unleashed**

# Indonesia Islamic Finance Structure

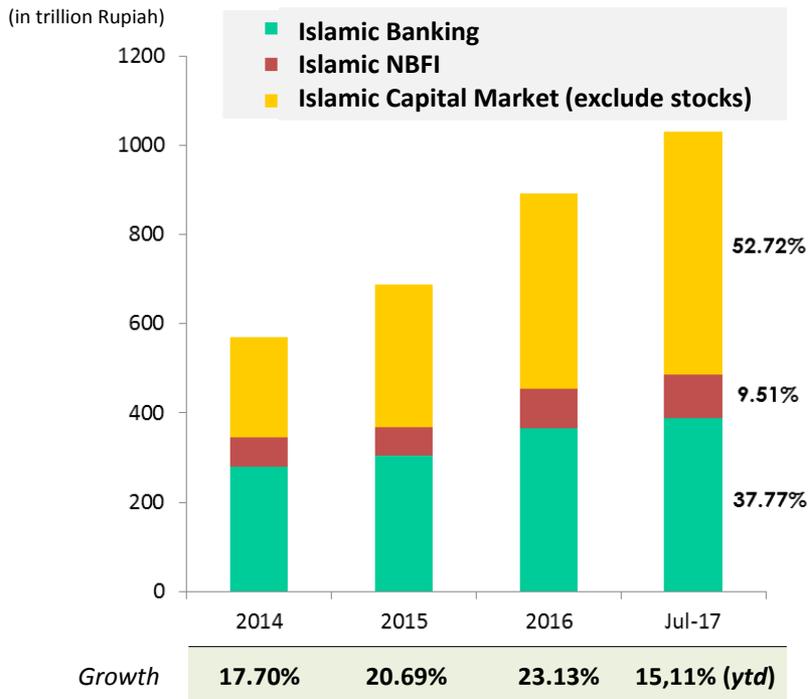


## 2. The Development of Islamic Finance Industry in Indonesia



# Islamic Finance Industry Landscape

July 2017



## Total Assets of Indonesia Islamic Finance Industry (in trillion Rupiah)

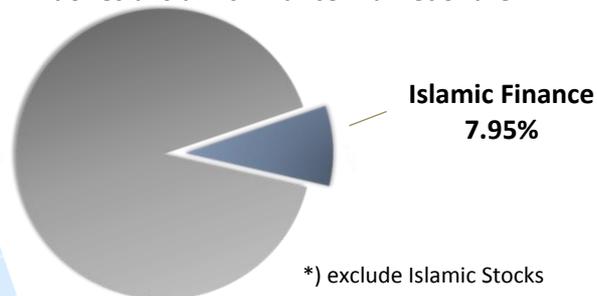
Industry	Number of Institution	2013	2014	2015	2016	July 2017
Islamic Banking	34	248.11	278.92	304.00	365.03	388.50
Takaful	58	16.66	22.36	26.52	33.24	37.29
Islamic Multifinance	37	24.64	31.67	22.35	35.74	37.81
Other Islamic Non-Bank Financial Industry	35	8.25	12.25	16.03	19.69	22.71
Corporate Sukuk	71	7.55	7.12	9.90	11.88	15.31
Islamic Mutual Funds	153	9.43	11.16	11.02	14.91	18.69
Government Sukuk	56	169.29	208.40	296.07	411.37	508.47

## Islamic Stocks Capitalization

Islamic Stocks	2.557,8	2.946,9	2.600,8	3.119,4	3.477,4
----------------	---------	---------	---------	---------	---------

As of July 2017, total assets of Indonesia Islamic finance industry (exclude capitalization of Islamic stocks) have reached **1,028.78 trillion Rupiahs** or **77.22 billion USD** (BI middle rate as of 31 July 2017 = Rp13,323.00/USD)

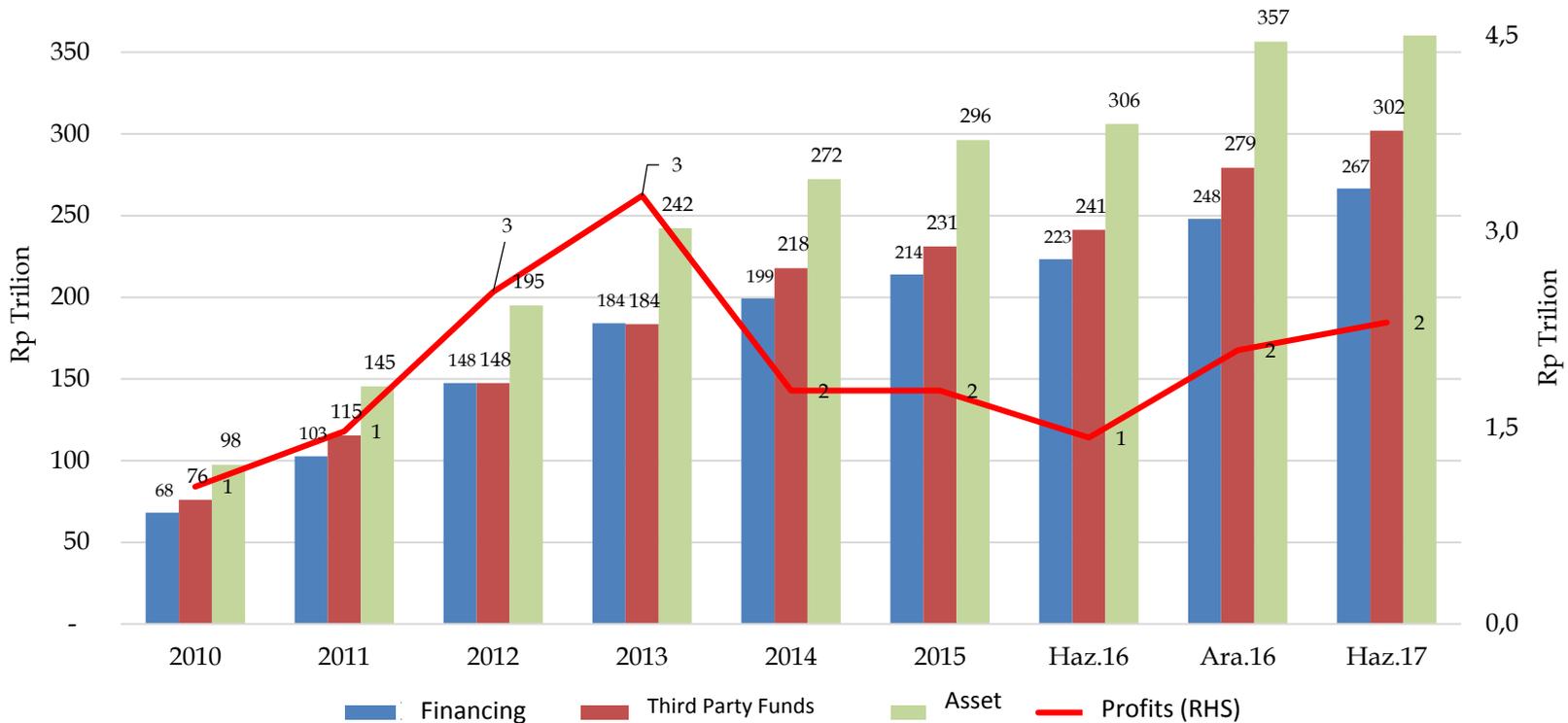
## Indonesia Islamic Finance Market Share \*



Industry	Total Assets (in trillion Rupiah)		Market Share (%)
	Total (Conventional + Islamic)	Islamic	
Banking	7,112.95	388.50	5.46%
NBFI	2,037.68	97.81	4.80%
Capital Market	3,792.92	542.47	14.30%
<b>TOTAL</b>	<b>12,943.54</b>	<b>1,028.78</b>	<b>7.95%</b>

# Indonesia Islamic Banking

## Overview Semester I / 2017



Source: Otoritas Jasa Keuangan (FSA)

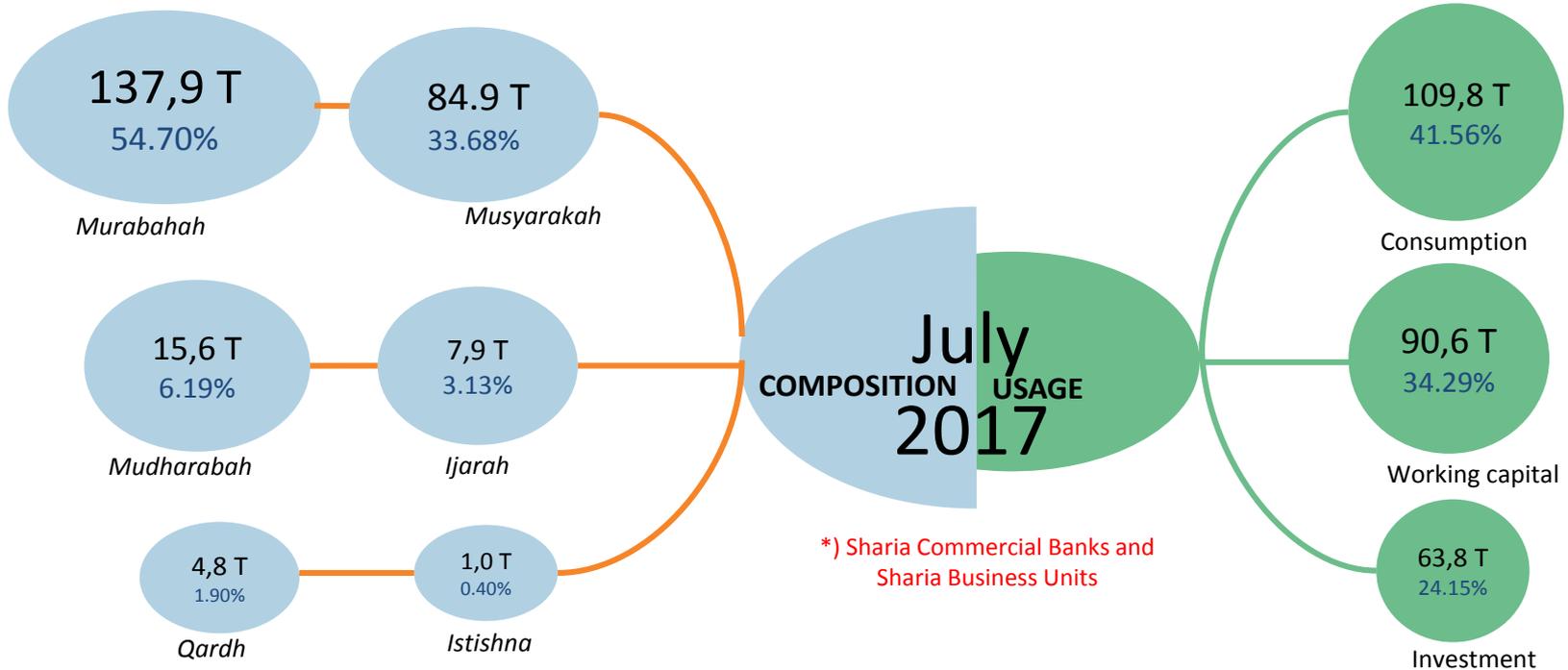
(BI middle rate as of 31 July 2017 = Rp13,323.00/USD)

**Although the number of Islamic banks' assets is growing, its growth rate is still lower than its conventional counterpart and the industry as a whole.**

As of Semester 1/2017, total Islamic banking asset is around Rp 380 trillion or 5,3 persen from total national banking assets (around Rp 7,000 trillion).

# ISLAMIC BANKS\*

Financing growth based on composition and usage



\*) Sharia Commercial Banks and Sharia Business Units

**Murabahah contract dominates the composition of financing, meanwhile the usage of fund is mostly on consumption and working capital.**



Source: Otoritas Jasa Keuangan (FSA)

(BI middle rate as of 31 July 2017 = Rp13,323.00/USD)



# ISLAMIC BANKS\*

Performance

July 2017

Capital Adequacy Ratio increases.  
It is higher than 2016 16.6%  
(minimum 8%).

17.01

**Capital Adequacy  
Ratio (%)**

**Non-Performing  
Financing Gross  
(%)**

4.5

NPF is below maximum  
provision (5%) , with gross NPF  
equals to 4.3% and net NPF  
2.5%.

Net Operating Margin  
increases compared to 2016  
1.4%

1.16

**Net Operating  
Margin (%)**

**Operating  
Expenses to  
Operations  
Revenue (%)**

91.56

Industry has become more efficient  
with the ratio of Operating  
Expenses to Operation Revenue is  
91.56% (2016: 93.6%).

\* Sharia Commercial Banks and  
Sharia Business Units

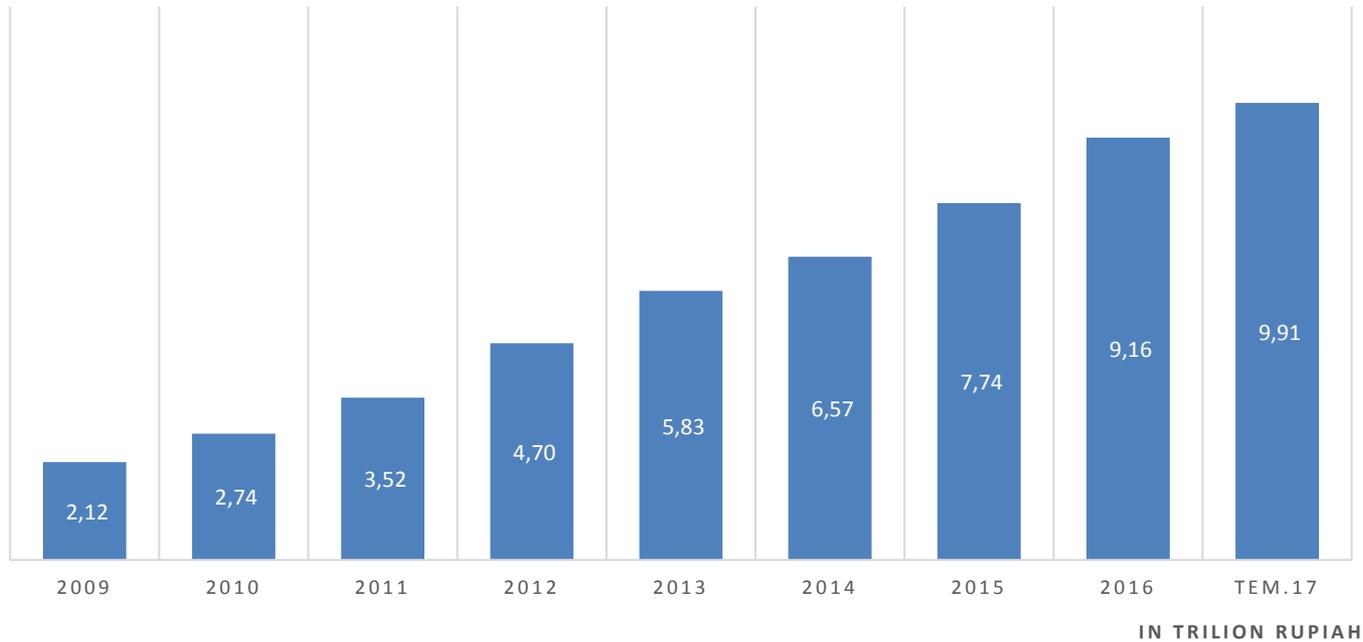


Source : Otoritas Jasa Keuangan (edited)



# ISLAMIC RURAL BANK (BPRS)

Asset growth



The asset increases consistently over the period of 2009-2017 derived by growth in financing



source: Otoritas Jasa Keuangan

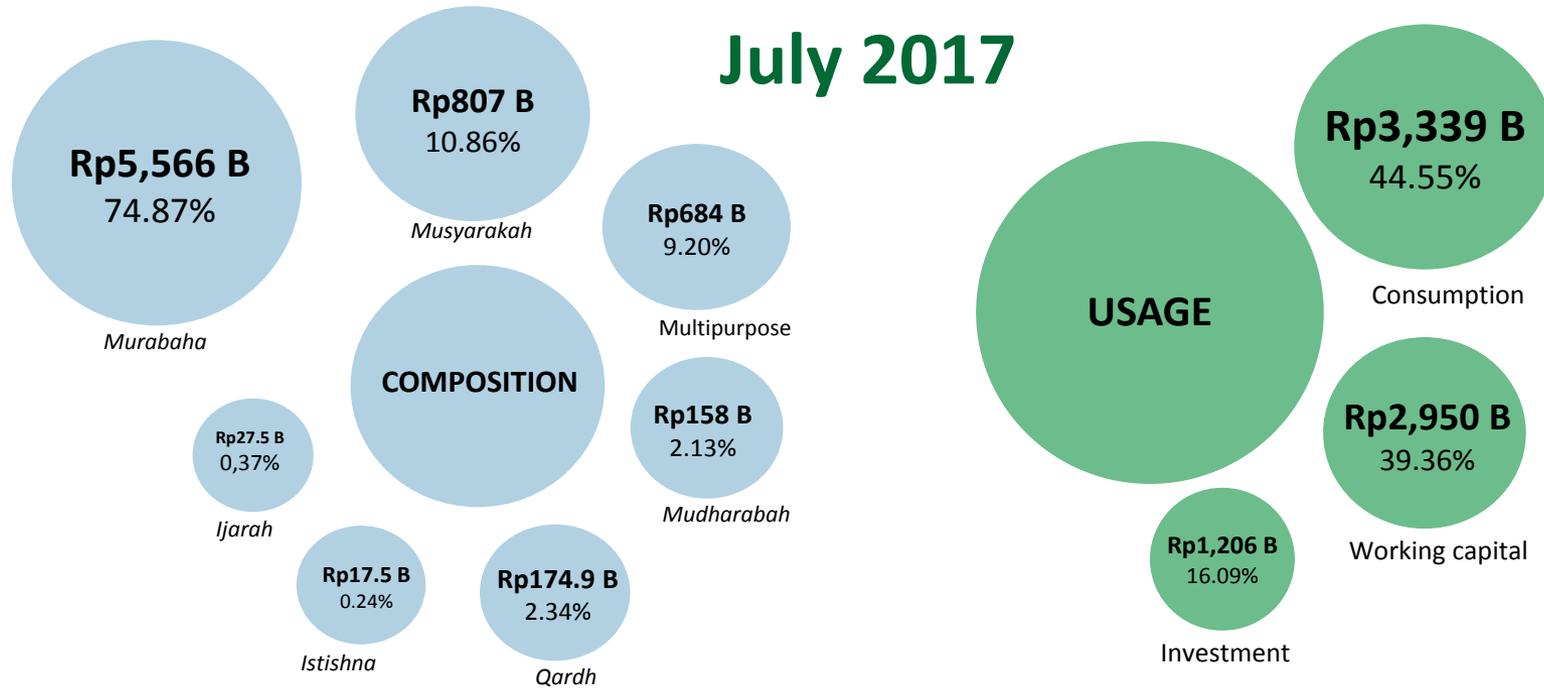
(BI middle rate as of 31 July 2017 = Rp13,323.00/USD)



# ISLAMIC RURAL BANKS (BPRS)

Financing growth based on composition and usage

## July 2017



*Murabahah contract dominates the composition of financing, meanwhile the usage of fund is mostly for consumption and working capital*



source: Otoritas Jasa Keuangan

(BI middle rate as of 31 July 2017 = Rp13,323.00/USD)



# ISLAMIC RURAL BANKS (BPRS)

Performance growth

## July 2017

CAR is better than that in 2016 (21.73%) of minimum 8%. It's higher than required.



**Capital Adequacy Ratio**

**Non-Performing Financing**



NPF is higher than that in 2016 (8.6%), therefore needs improvement in the quality of financing.

Jumlah nasabah DPK tumbuh baik (1,2 juta pada tahun 2016).



**Depositor**

**Operating Expenses to Operations Revenue**



The operating efficiency improves as the ratio of operating expenses to operation revenue decreases to 86.51% (2016: 87.09%).

Depositor rises from 1.2 million in 2016 to 1.3 million in 2017



Source : Otoritas Jasa Keuangan (edited)



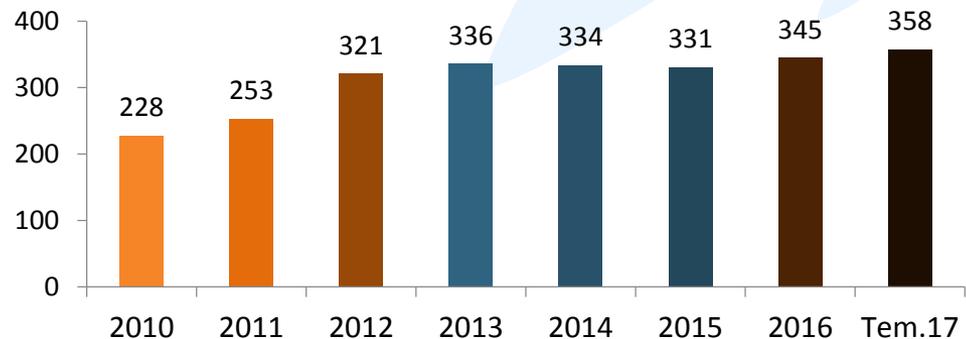
# ISLAMIC CAPITAL MARKET

## Stocks

Islamic Capital Market improves steadily both in the number of sharia stocks listed on the Indonesia Stock Exchange and its capitalization.

As of July 2017, ISSI sharia stock index capitalization reached Rp3,483 trillion, while the capitalization of JII stock index was Rp2,231 trillion.

## Quantity



## Index of stock capitalization ISSI dan JII



■ ISSI (Indeks Saham Syariah Indonesia) ■ JII (Jakarta Islamic Index)



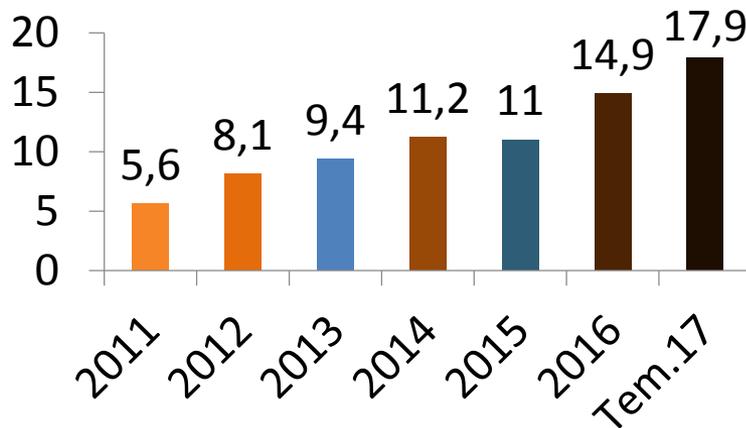
Source: Otoritas Jasa Keuangan, Indonesia Stock Exchange



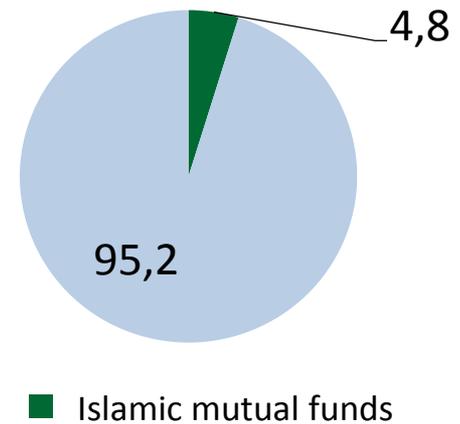
# ISLAMIC CAPITAL MARKET

## Mutual funds

Net Asset Value (Trillion Rupiah)



Share of NAV (%)



Islamic mutual funds show a positive performance during the period, indicated by positive growth of their net asset value (NAV) each year. As of July 2017, the NAV of (153) Islamic mutual funds was Rp17.9 Triliun, or around 4.8% of the total industry.



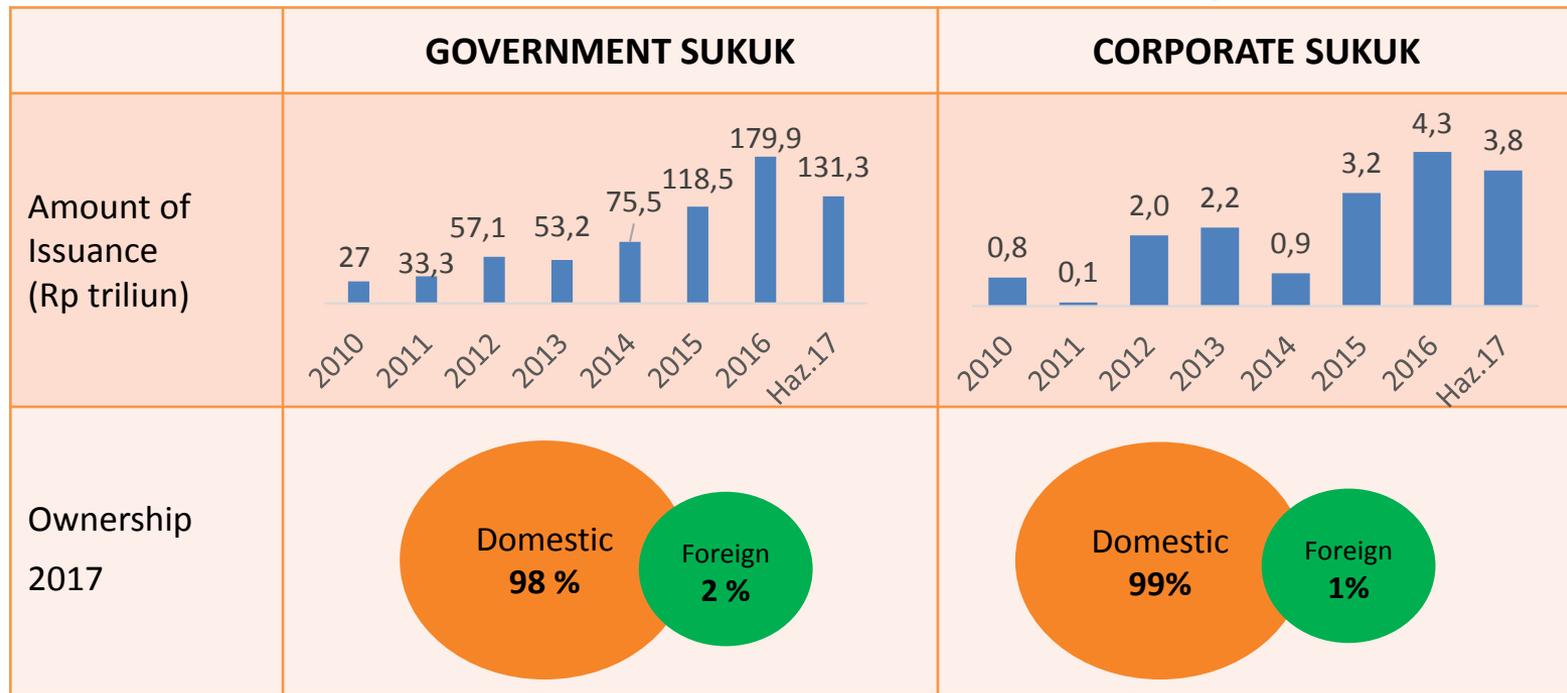
Source: Otoritas Jasa Keuangan

(BI middle rate as of 31 July 2017 = Rp13,323.00/USD)



# ISLAMIC CAPITAL MARKET

## Sukuk Market

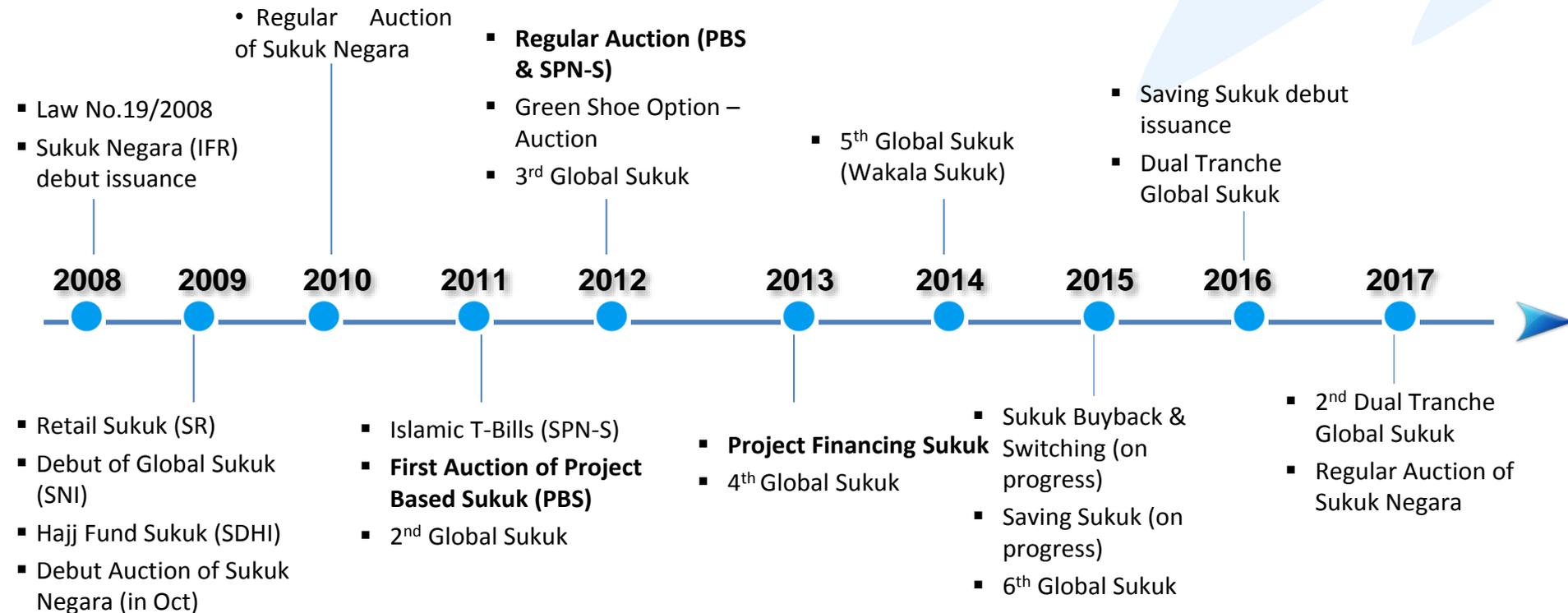


The issuance of Sukuk Negara increases significantly over the period while that of corporate sukuk is fluctuative.

Source: Otoritas Jasa Keuangan, Ministry of Finance



# Milestone of Government Sukuk (Sukuk Negara)



## A conscious effort to support and develop the Islamic financial market

The Government of Indonesia regularly issues Sukuk Negara in both the domestic and global market as a form of commitment to support the development of the global Islamic financial market.

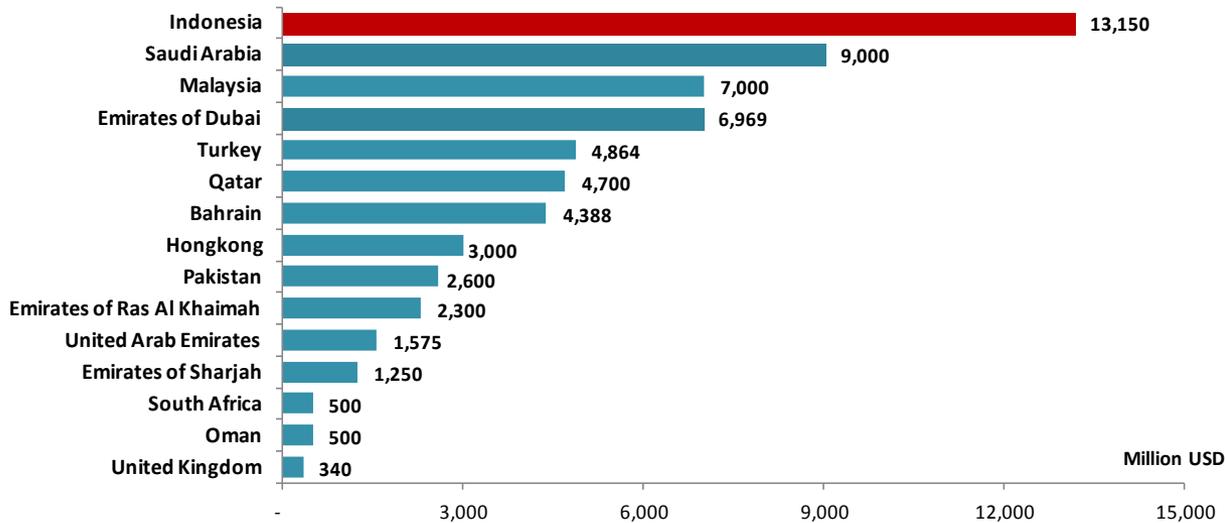
## Investing in the viability and sophistication of Islamic banking by providing alternative products

The Issuance of Sukuk Negara provides an alternative Sharia compliant instrument for fast growing Islamic financial institutions in Indonesia to invest in.

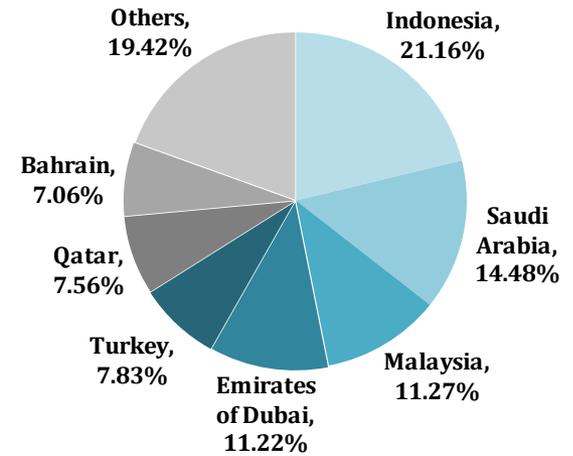
# ISLAMIC CAPITAL MARKET

Growth of issuing *International Sovereign Sukuk* (Denomination in USD)

**Total Issuing of World International Sovereign Sukuk (up to 21 July 2017)**



**Market Share of World International Sovereign Sukuk (up to 21 July 2017)**



Indonesia is the biggest global sukuk issuer since 2009 (USD13.35 billions or 21.2% of total global sovereign sukuk), which is USD62.13 billion since 2009).

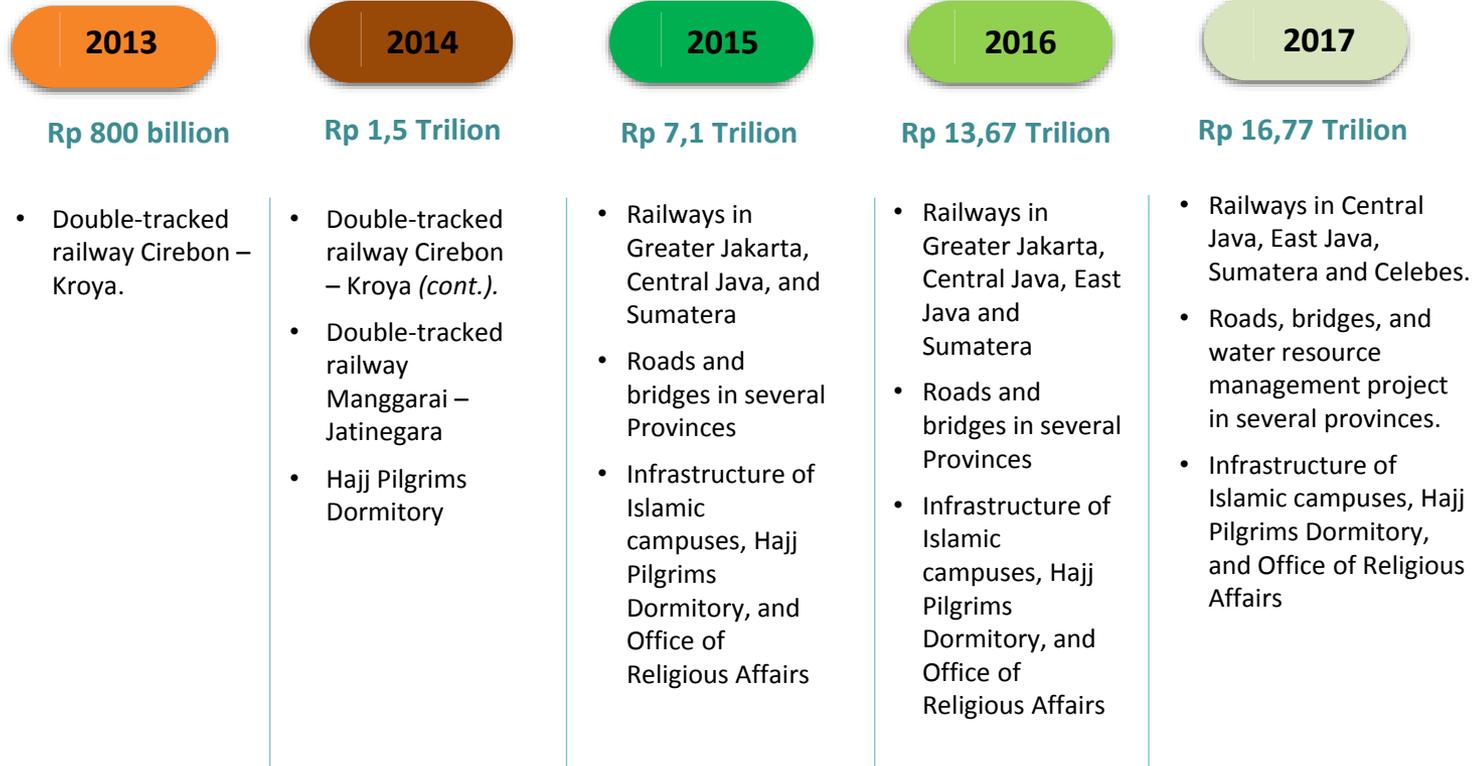


Source: Ministry of Finance Of Republic of Indonesia (edited)



# ISLAMIC CAPITAL MARKET

Project Financing Sukuk



Source: Ministry of Finance Of Republic of Indonesia (edited)



# ISLAMIC FINANCIAL INDUSTRY - NON BANK (IKNBS)

Asset growth (in Rp trillion) and Market share in each Sub-Industry (in %) per July 2017

● Shariah Insurance (takaful)



● Islamic Financing Corporation



● Islamic Microfinance Corporation



● Lembaga Pembiayaan Ekspor Indonesia (LPEI) Syariah\*\*



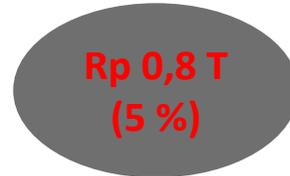
● Islamic Pawnshops\*



● Islamic Ventura capital



● Islamic Guarantee Corporation\*



\* As of April 2017

\*\* as of June 2017



source: Otoritas Jasa Keuangan  
(BI middle rate as of 31 July 2017 = Rp13,323.00/USD)

In general, the asset and market share of non-bank sharia industry is small compared to the total industry.

## ISLAMIC FINANCIAL INDUSTRY - NON BANK (IKNBS)

No	Industry	Asset (billion rupiah)					
		Des-12	Des-13	Des-14	Des-15	Des-16	July-17
1	Sharia Insurance (takaful)	13,239	16,647	22,364	26,519	33,243	37,292.82
2	Sharia Finance Company	22,664	24,638	23,767	22,350	35,740	37,810.39
3	Sharia Venture Capital Company	225	311	384	481	1,092	1,159.67
4	Sharia trade financing	2,601.00	4,652.00	8,180.00	11,137.03	13,114.61	13,750.68*
5	Sharia Micro Finance Institution	-	-	-	27.44	63.45	71

During 2012-2017, the asset of Islamic non-banking industry such as takaful and financing company increased significantly. In addition, there is also a huge potential of sharia microfinance industry in Indonesia which is still around Rp71 billion.

source: Otoritas Jasa Keuangan

(BI middle rate as of 31 July 2017 = Rp13,323.00/USD)

\* as of June 2017





# 3. Indonesia Islamic Finance Instruments: Development Strategies

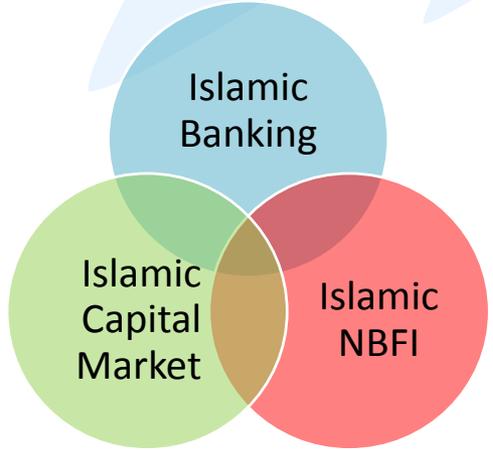


# Indonesia Islamic Finance Development Roadmap

Launched by OJK on 2016



Launched by Ministry of National Development Planning on 2016



2015                      2015                      2015



June 2017

Indonesia Islamic Finance Development Roadmap is integration between three sectoral roadmaps which are Islamic Banking Roadmap, Islamic Capital Market Roadmap, and Islamic NBFI Roadmap which addressed strategic issues and development programs of Islamic finance for period 2017-2019.

## Instrument Development strategies: Islamic Banking

- (1) To develop revenue sharing-based alternative funding/investments and investment management products in line with customer life cycle;
- (2) To develop Islamic liquidity and risk management instruments (including hedging instruments);
- (3) To enhance regulations concerning new products and activities;
- (4) To launch Islamic savings deposit products for students;
- (5) To develop and enhance Islamic banking product standard (including documentation) in line with business characteristics;
- (6) To enhance the role of IBWG (Islamic Banking Working Group) in Islamic banking product development;
- (7) To enhance financial service excellent;
- (8) To develop branchless banking;
- (9) To promote the presence of domestic product in other countries.

Source: Otoritas Jasa Keuangan (FSA)



## Instrument Development strategies: Islamic Capital Market

- (1) Launched regulation concerning Islamic mutual fund based on foreign securities and sukuk-based mutual fund;
- (2) Launched regulation concerning Islamic real estate investment fund and Islamic asset backed securities;
- (3) To develop corporate sukuk other than mudharabah and ijarah;
- (4) To develop wakaf-based sukuk.

Source: Otoritas Jasa Keuangan (FSA)



## Instrument Development strategies: Islamic Non-banking Industry

- (1) To foster the development of Islamic financing;
- (2) To develop regulations covering Sharia aspects of pension programs;
- (3) To develop national interest such as agricultural insurance and microfinancing;
- (4) To develop cross-section sharia-based products.

Source: Otoritas Jasa Keuangan (FSA)



SYUKRAN KATSIRAN  
THANK YOU  
TERIMA KASIH



# Appendix



# Instruments of Money (Monetary) Market

1. Bank Indonesia Syariah certificate (SBIS)
2. Bank Indonesia Wadi'ah Certificate (SWBI)
3. Interbank Mudharabah Investment Certificate (SIMA)
4. Repurchase Agreement (Repo) Syariah



# Instruments of Money (Monetary) Market

1. Bank Indonesia Sharia certificate (SBIS)  
Short-term securities based on sharia principles issued by bank Indonesia denominated in Rupiah
2. Bank Indonesia Wadi'ah Certificate (SWBI)  
SWBI is monetary instrument of Bank Indonesia for Islamic Banks in Indonesia which has function to allocate liquidity surplus of Islamic banks to Central Bank.



# Instruments of Money (Monetary) Market

## 3. *Interbank Mudharabah Investment Certificate (SIMA)*

SIMA is instrument for Islamic banks that have excess funds to gain profits, and on the other hand, this instrument are also used to obtain short-term funds for banks that are experiencing financial deficits.

## 4. *Repurchase Agreement (Repo) Sharia*

Repurchase agreement (Repo) is an instrument of open market operation in the framework of monetary control based on Sharia principles. This instrument can also be used for overcoming shorten/over liquidity purposes.

