

ISLAMIC BANKING AND FINANCE IN INDONESIA

RUSNI HASSAN



الجامعة الإسلامية العالمية ماليزيا
INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA
يُونَيْتِسْتِي اِسْلَامِي اِنْتَار اِنجيسا مِللِسِيَا

Garden of Knowledge and Virtue

IIUM Institute of Islamic Banking and Finance



MALAYSIA

ISLAMIC BANKING AND FINANCE IN INDONESIA

EDITOR
RUSNI HASSAN

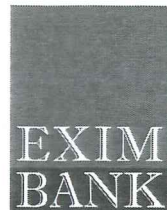
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PROFILE OF AUTHORS

Dr Agus Triyanta is a senior lecturer in Islamic Law of Finance at the Faculty of Law, Universitas Islam Indonesia. He earned his PhD in 2009 from Ahmad Ibrahim Kulliyah of Laws, International Islamic University Malaysia, on the area of concern Islamic Banking Law. He pursued his Master of Art from the University of Manchester UK and his Master of Law in Universitas Islam Indonesia, whereas his Bachelor of Art was earned from the Faculty of Islamic Law, State Islamic University of Yogyakarta, Indonesia. He is currently chairing LLM Program (2018-2022) and previously as the Head of Postgraduate Program (2014-2018). Besides his academic activities, he is also the Head of Shariah Arbitration Board in Yogyakarta Province. Also, he serves as Shariah Supervisory Board member of a Micro Finance Institution and a Halal Healthcare Services Provider based in Yogyakarta. He is now also appointed as an expert consultant specializing in Islamic Economic Law in hukumonline.com, the most prominent online legal source provider in Indonesia.

Dr Aiman Nariman Mohd Sulaiman is a Professor at the Ahmad Ibrahim Kulliyah of Law International Islamic University Malaysia. She obtained her LLB (Hons) and Masters in Comparative Law (MCL) from IIUM. She received her Doctor of Legal Science (SJD) from Bond University, Australia. Her areas of interest are the law on partnership, company law, law of trust and equity, and Islamic commercial law, especially in their application to the partnership and company law. Currently, she serves as

a Deputy Dean of Academic and Industrial Linkages at the Ahmad Ibrahim Kulliyah of Law.

Atharyanshah Puneri is currently working at PT Bank Muamalat Indonesia Tbk. He graduated from International Islamic University Malaysia (IIUM) with MSc specializing in Islamic Banking and Finance. His first degree is in Law, which he obtained from Universitas Indonesia (UI) in 2016.

Aulia Arifatu Diniyya is a Master's student at IIUM Institute of Islamic Banking and Finance (IIiBF) Malaysia and received her bachelor's degree from Universitas Islam Indonesia (UII), Majoring in Marketing Management. She is one of the finalists of Maybank Islamic Postgraduate Scholarship 2020. In 2014-2016 she was a teaching and research assistant in Marketing Management subject at UII. Apart from her academic qualification, in 2018, she was awarded a Short-Term Scholarship Australia Awards Indonesia to learn International Business at the Queensland University of Technology, Australia. Her research interest is Business & Marketing Management, Islamic Banking & Finance, and Financial Literacy.

Aulia Fitria Yustiardhi is an economist in Bank Indonesia. She graduated from International Islamic University Malaysia (IIUM) with MSc specializing in Islamic Banking and Finance. Her first degree is in accounting, which she obtained from Gadjah Mada University in 2002. She joined the central bank of Indonesia, Bank Indonesia, in 2007 and was assigned as an Islamic Bank Supervisor for almost 9 years. She was also assigned as an Islamic Bank Supervisor in the Indonesian Financial Services Authority (Otoritas Jasa Keuangan, OJK) for three years. After finishing her

Master's Degree, she has been appointed to join the Islamic Economy and Finance Department in Bank Indonesia.

Erika Takidah is a PhD candidate at IIUM Institute of Islamic Banking and Finance (IiBF). Her Master of Science and Bachelor of Accounting degrees from the University of Indonesia in 2004 and 2000. She is currently a faculty member at the Economic Education Department, Faculty of Economics, The States University of Jakarta, Indonesia. She teaches Accounting, Islamic Accounting, Entrepreneurship, Islamic Economy and Finance at the undergraduate level. Her research interest includes Islamic Social Finance, Islamic Finance, Financial Education and Digital Finance Innovation. She is also a part of the Indonesian Association of Islamic Economist (IAEI) and Shariah Economics Society (MES).

Dr Indira Retno Aryatie is a senior Lecturer in Faculty of Law, Universitas Airlangga, Indonesia. She holds a Bachelor's and Master's Degree in Law from Universitas Airlangga Indonesia and PhD in Law from International Islamic University Malaysia (IIUM). Her interest research fields are Banking Law, Islamic Law, Private Law, and Family law. Currently, she serves as Head of Master Program in Notarial Law, Faculty of Law Universitas Airlangga. Apart from her lecturing and research activities, she acts as Editor in Chief of Notaire Journal, a journal that publishes research and review articles in notarial law.

Lisa Listiana is the founder of Waqf Center for Indonesian Development and Studies (WaCIDS). Currently, she is pursuing a PhD program at IIUM Institute of Islamic Banking and Finance (IiBF) with a full scholarship from the

Indonesia Endowment Fund for Education (LPDP). She has awarded as Best Paper in the 4th Annual Islamic Finance Conference (AIFC) and Shariah Economic and Finance Forum (FREKS) Call for Paper 2018. She was awarded as the Best Talent of LPDP 2017. She holds a master's degree in accounting from the University of Indonesia with a full scholarship from the same sponsor. Previously, she worked as an accountant in ExxonMobil, an auditor in Ernst and Young, and a part-time lecturer and research fellow in Indonesian universities.

Mahdiah Aulia is currently a contract employee in the Shariah Economics and Finance Department, Central Bank of Indonesia. She earned her Master degree from IIUM Institute of Islamic Banking and Finance (IiBF) in 2020. Her first degree as a Bachelor of Economics was obtained from Universitas Indonesia in 2017. During her study, she worked as a research assistant for a few projects under the supervision of lecturers at IiBF. She has presented her papers about Islamic economics and finance at several national and international conferences. She was also awarded as the recipient of Yayasan Khazanah scholarship from 2018 until 2020.

Mohamad Faizal Bin Bolhan graduated with a Bachelor of Social Sciences (International Studies), Universiti Malaysia Sarawak, in 2004. He currently serves in the Administrative and Diplomatic Services, the Government of Malaysia. He started his career in 2005 as an Operating Budget Officer in the Ministry of Internal Security (now known as the Ministry of Home Affairs). He was then transferred in 2008 to the Malaysian Prisons Department as the procurement officer for the Department. From 2013 until 2018, he serves

as the Development Budget Officer in the Ministry of Housing and Local Government. He is currently on study leave for further studies at the Masters level in Islamic Banking and Finance, International Islamic University Malaysia.

Muhamad Fahmi Mustafa is currently a Lead Consultant and Subject Matter Expert of Islamic Banking at Silverlake Group, an award-winning global financial technology and digital economy solutions provider based in Kuala Lumpur, Malaysia. Fahmi currently Lead in Silverlake's Islamic Digital Transformation. He is also responsible for Silverlake Axis Integrated Islamic Banking Solution's product development, marketing supports, implementations and transformation services. Fahmi has more than 16 years of Islamic IT Solution implementation and transformation experiences in the Asia market. Before joining Silverlake, Fahmi works for various companies based in Kuwait and Kuala Lumpur, such as another award-Winning company; Path Solutions. Fahmi holds a BCompSC in Software Engineering from the University of Malaya and a Master of Science in Islamic Banking and Finance from the International Islamic University of Malaysia.

Muhamad Yusuf Abdillah is currently a Post Graduate Student at the Institute of Islamic Banking and Finance, International Islamic University Malaysia (IIUM). His first degree is in Economic, Islamic Banking which he obtained from Islamic University Az Zahrah (UIA) in 2005. Before becoming a postgraduate student in IIUM, he worked as a banker in Bank Muamalat Indonesia, Kuala Lumpur branch, with his last position as Senior Assistant Vice President, Head of Operation. He started his career as a

Institute Religious in Pontianak, West Kalimantan, Indonesia. Lia was a two-timing winner in Islamic Banking and Finance Workshop, which IIBF held in 2017.

Rifka Mustafida earned her bachelor's degree in Islamic Economics from Tazkia University College of Islamic Economics in 2016. She is currently pursuing her Master degree in Islamic Banking and Finance at International Islamic University Malaysia. Rifka has working experience as a research assistant. She has conducted some researches, including; Contribution of Islamic Microfinance Studies in Achieving SDGs; Crowd-investment vs Peer-to-Peer Lending and Two Words in Islamic Accounting Research; Accountability and Sustainability; The Implementation of Maqashid Shariah in Zakat Institution: Comparison Between Indonesia and Malaysia. Several of her papers have been presented at the national and international forums.

Dr Salina Kassim received her PhD in Economics in 2006 from the International Islamic University Malaysia and her Master and Bachelor degrees from the University of Missouri and the University of Arizona USA in 1994 and 1992, respectively. Currently, she serves as the Dean IIUM Institute of Islamic Banking and Finance, International Islamic University Malaysia. Prior to becoming an academician, she has several years of working experience in a commercial bank in Malaysia. She teaches Money and Banking, Islamic Banking and Finance, and Principles of Economics at the undergraduate level. Meanwhile, she teaches Islamic Financial System and Financial Economics and Contemporary Issues in Islamic Finance at the postgraduate level. She is very active in her research work,

Unlocking the Potential of Islamic Banking and Finance in Indonesia

Rusni Hassan

Introduction

Indonesia is known for being home to the world's largest Muslim population. More than 230 million Indonesians – which is about 87 percent of Indonesia's total population – are categorized as Muslim (Pew Research Center Religion & Public Life, 2015). Despite that, Islamic banking and finance in Indonesia continues to be nascent with Indonesian Islamic Finance market share reached only 9.6% in 1H20 (Fitch Ratings 2021). Indonesia is still developing Islamic finance ecosystem particularly in takaful and Islamic banking. Among the outstanding key challenges include the limited awareness, confidence and demand for Islamic products and market outreach which is still work in progress. However, the sector is steadily gaining ground particularly with better economic environment, continuing regulatory push and a sustained policy development from the government that reinforces the outlook for Indonesia's Islamic banking and finance sector.

This creates a great opportunity for Islamic banking and finance development in Indonesia. Based on Islamic Finance Development Indicator, in 2019 Indonesia's Islamic Finance ranked second, it leaped two steps from fourth

place in 2018. Islamic finance assets in Indonesia reached USD 99 billion in 2019 (ICD & Refinitiv, 2020). Despite Covid-19-related pressure, Islamic banking and finance sector maintained a steady performance in 2020. Unarguably, profitability weakened due to higher credit costs and return on assets (reduced to 1% by end-2020); but capitalisation (as reflected in the total capital ratio of 21.6%) should be adequate to support medium-term growth and absorb any spike in credit costs. Interestingly, its financing/deposit ratio of 82.4% benefited from unutilised hajj funds due to travel restrictions (Fitch Ratings, 2021).

For the capital market sector, Indonesia has issued a blockchain-based sukuk microfinance issue, as well as several green sukuk issues from the sovereign, multilateral and corporate issuers. In 2019, the Indonesian government issued its first Green sukuk (1.25 billion USD) and the second Green sukuk (USD750 million) (IFSB, 2020). According to the Indonesian Central Securities Depository, the number of investors holding Shariah funds increased by 174.41 percent over 2018 – from 94.097 to 258.207 by the end of 2019. The outstanding increase represented growing awareness of the importance of investments among the millennial generation. Moreover, Indonesia is leading with the most companies offering Islamic fintech (31 companies) (World Bank, 2020). The adoption of fintech in Islamic social finance could potentially increase financial inclusion as it requires the opening of bank accounts to access the funds. Besides, social fund instrument has potential to be utilized in improving the welfare of the Muslim society. Indonesia has potential Waqf assets of USD 60 billion and India where Waqf properties have an estimated market value of USD 24 billion (World Bank, 2020). In fact, Indonesian President touted that the potential for waqf in Indonesia is very high,

ISLAMIC BANKING AND FINANCE IN INDONESIA

This book on Islamic Banking and Finance in Indonesia is one of the efforts to help increase awareness and literacy on Islamic banking and financial development in Indonesia. This book is written in a language that is easy to understand and concise in summarizing three important aspects related to Islamic banking and finance in Indonesia. First, the legal and regulatory framework which includes legal frameworks and practices, macroprudential policies, good governance, and dispute resolution for Islamic banking in Indonesia. Second, the book discusses various Islamic economic and financial instruments which include Islamic commercial and social finance as well as their challenges and prospects in Indonesia's Islamic financial industry. Third, the developments, opportunities, and challenges in the application of Islamic financial technology in Indonesia. We believe that this book will certainly contribute to the development of knowledge in Islamic banking and finance. It is expected to be a reference for academics, practitioners, and the general public in understanding the field as well as the concept and its implementation.

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