

AEC 2015: Cross Border Supervision and Challenges to Unleash Indonesia Sharia Banking Potential



Edy Setiadi

*Head of Islamic Banking Department
Indonesia Financial Services Authority*

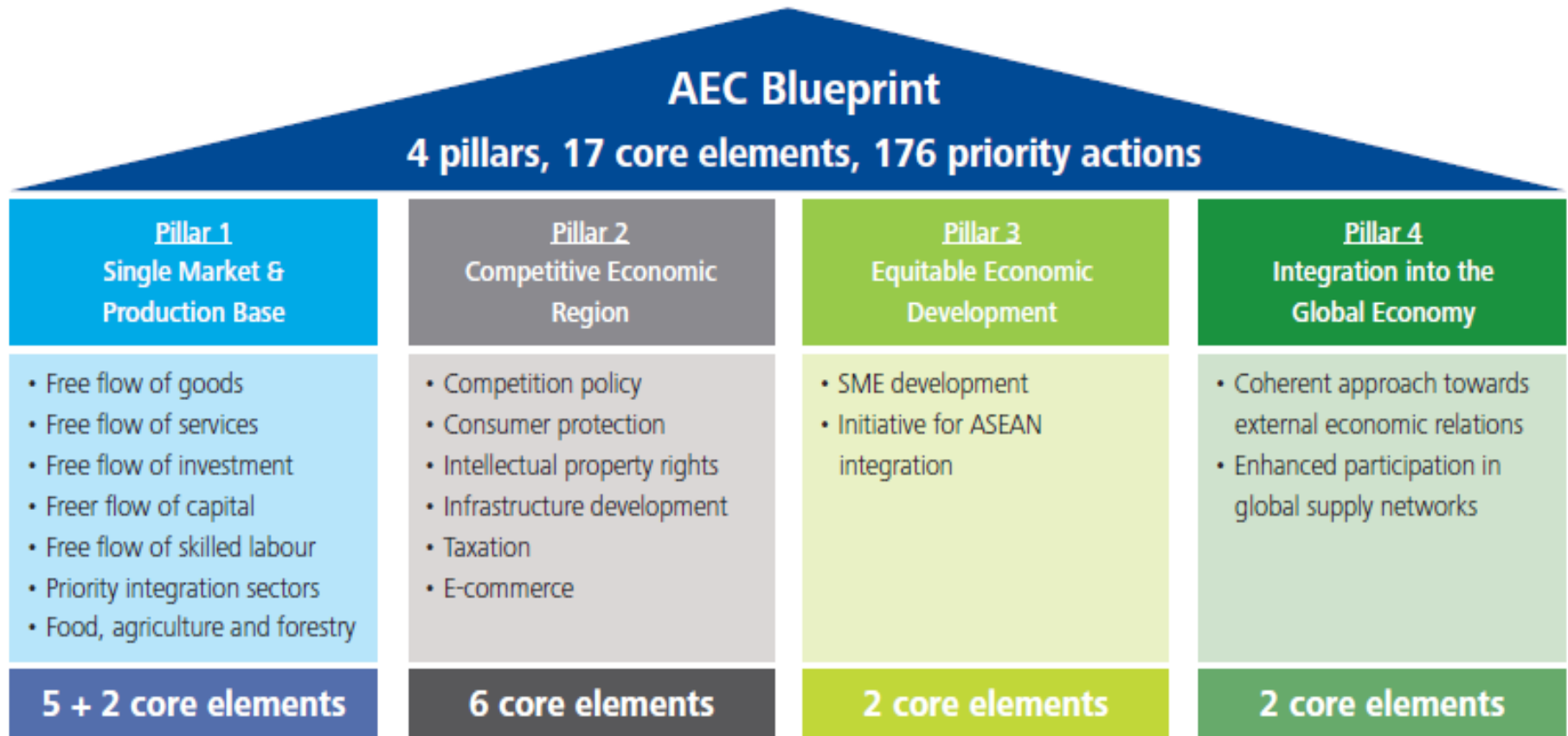
Bandung, 2 December 2014

- **ASEAN Economic Community (AEC) 2015 in a Glance**
- **Indonesia Economy vs other ASEAN countries**
- **Indonesia Banking Performance vs Other ASEAN Countries**
- **The performance and Readiness of Indonesia Sharia Banking Industry**
- **The Direction of Indonesia Sharia Banking Industry Development**

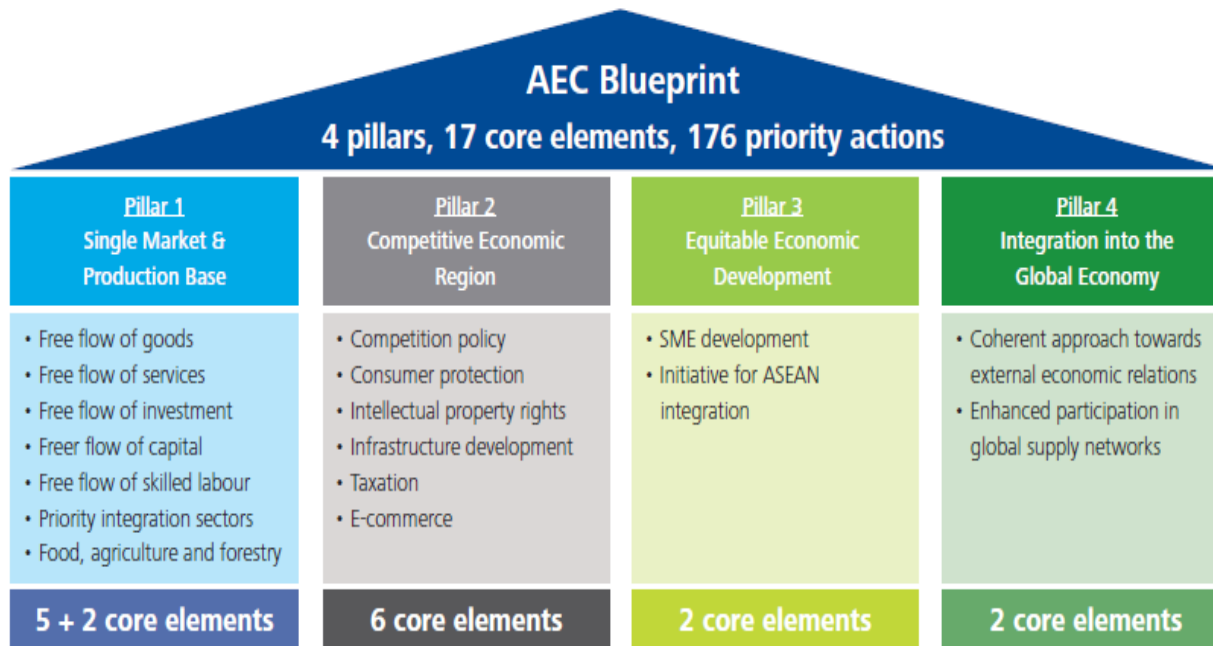


ASEAN Economic Community (AEC) 2015 in a Glance

AEC Strategic Framework



What's in it for us?

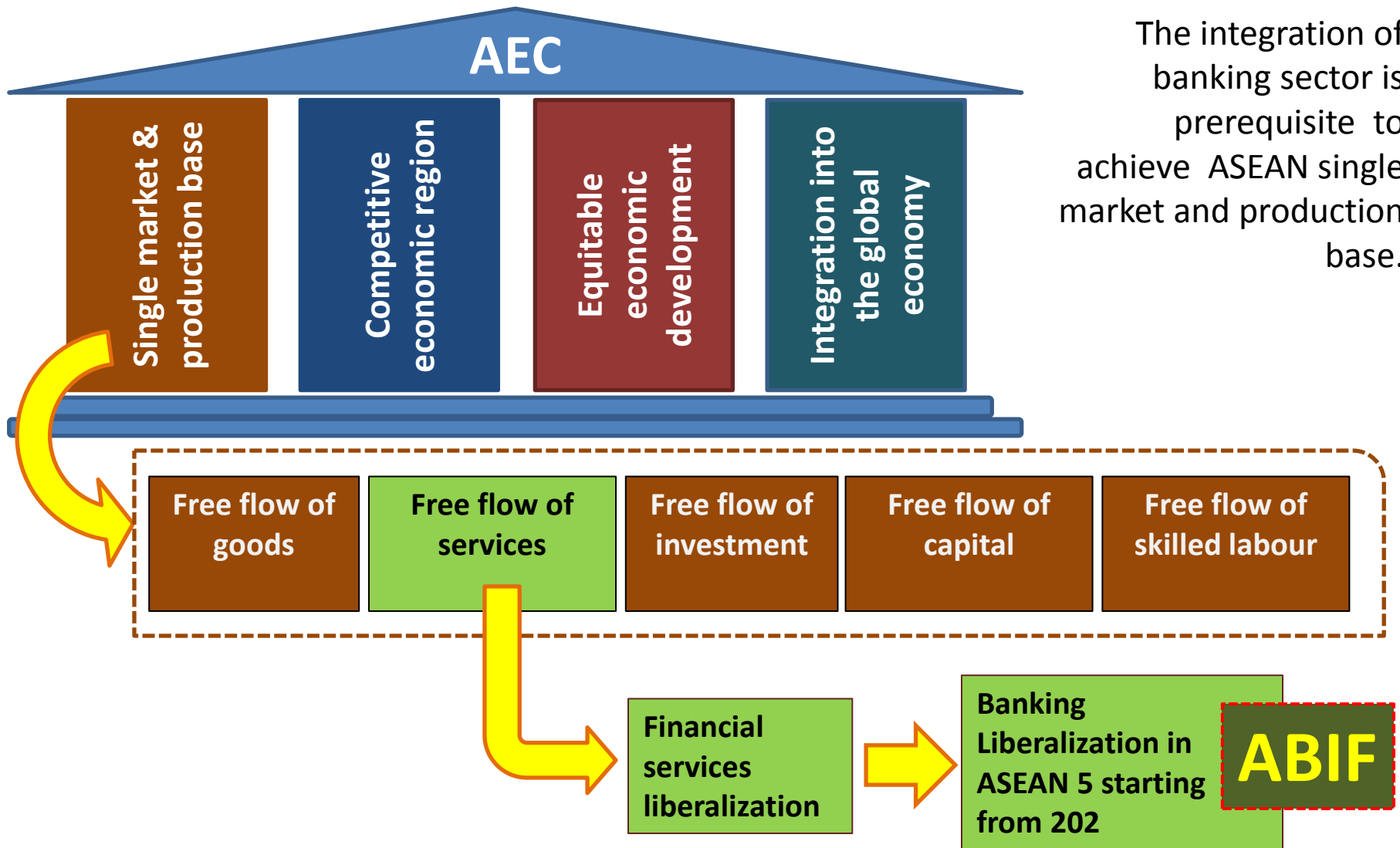


The potential for the **price of goods and services cheaper** as a result of increased competition.

There will be **variations in the quality and choice of product design.**

Integration encourage stimulation of investment and trade flows **that would bring companies that can compete globally.**

AEC – Banking integration

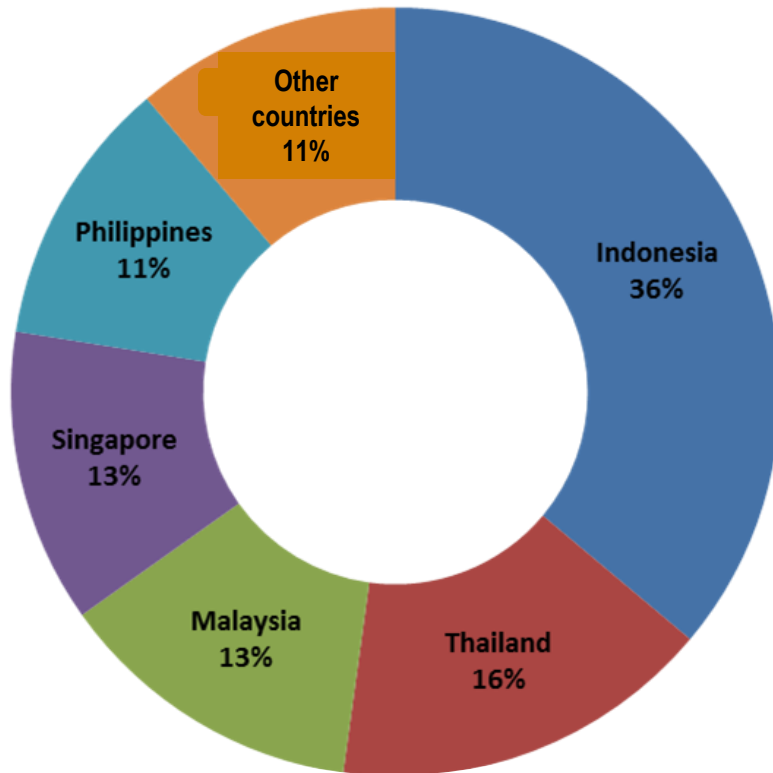




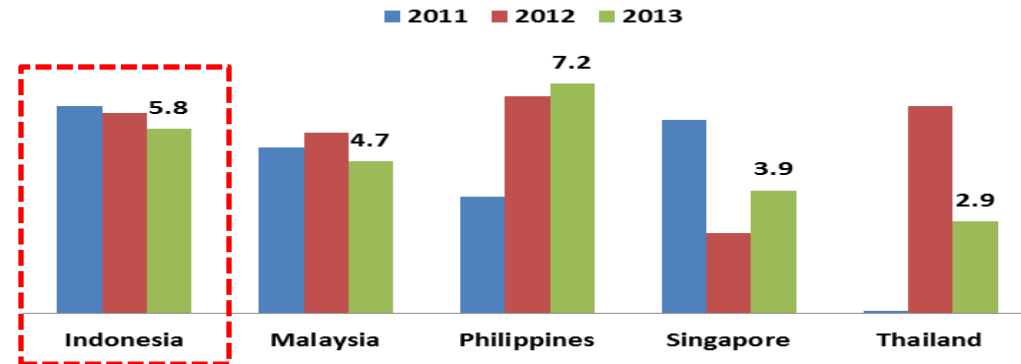
Indonesia Economy vs other ASEAN countries

Indonesia Economy vs Other ASEAN Countries

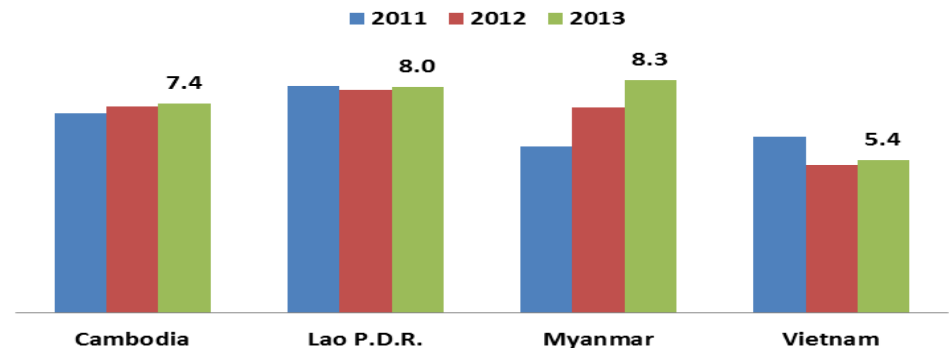
ASEAN Countries Economy 2013



Economic Growth of ASEAN 5



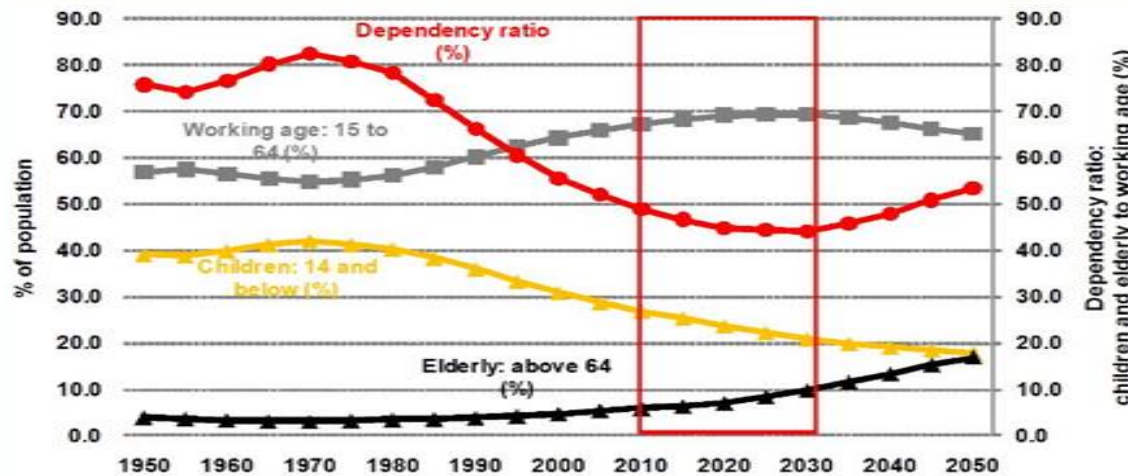
Economic Growth of ASEAN - CLMV



Indonesia is the biggest economy in ASEAN, with the biggest population (almost 250 million people) and the largest geographic area (1,9 million km²) with a stable economic growth.

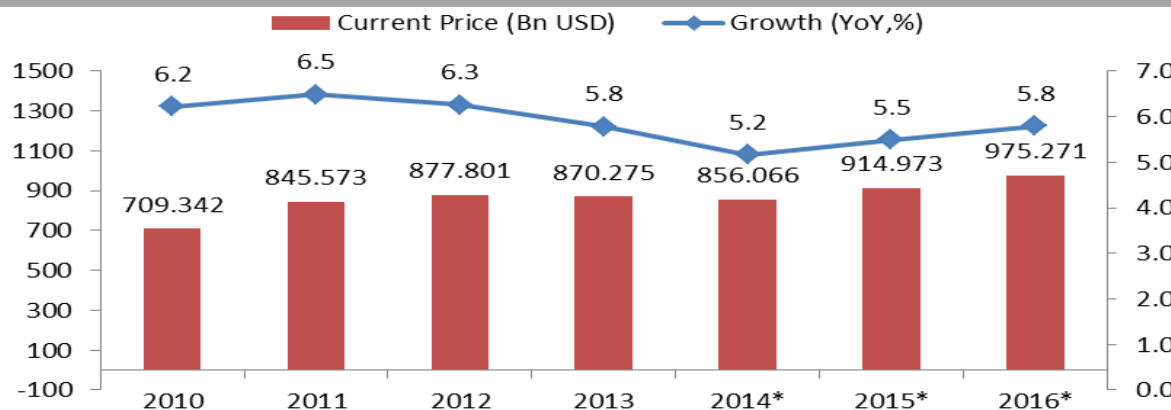
Demographic Dividend Supporting Economy Growth

Population growth projection: Demographic dividend



Indonesia is projected to gain demographic dividend that will boost the productivity and economic growth.

Economy growth projection

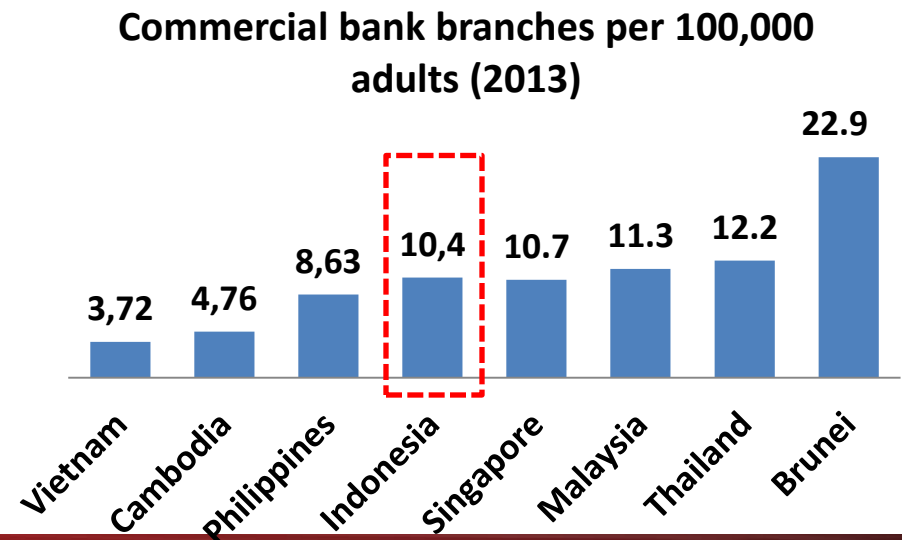
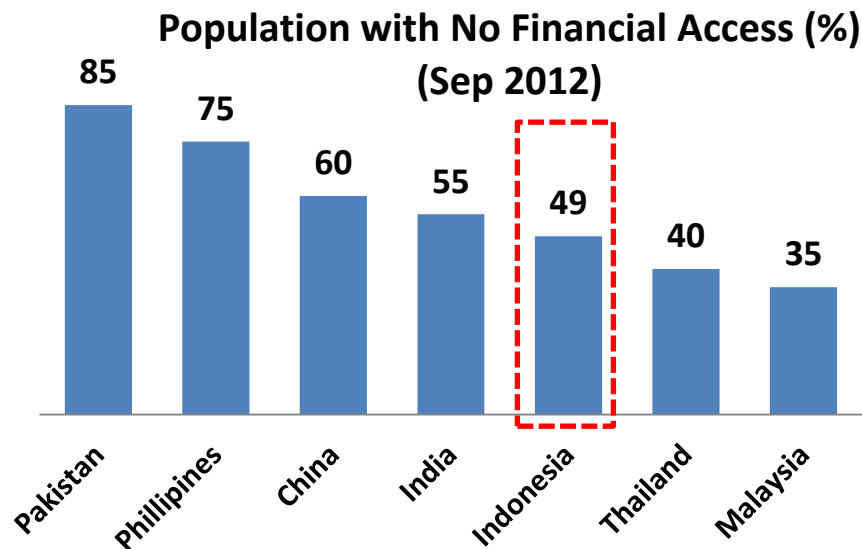
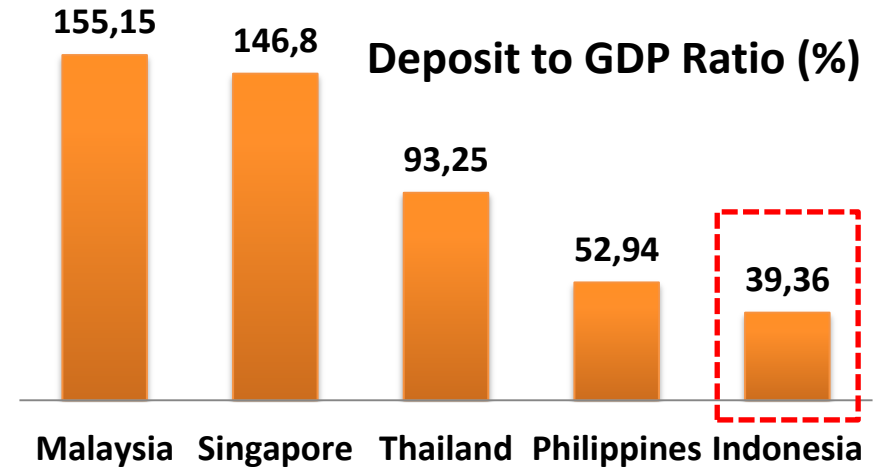
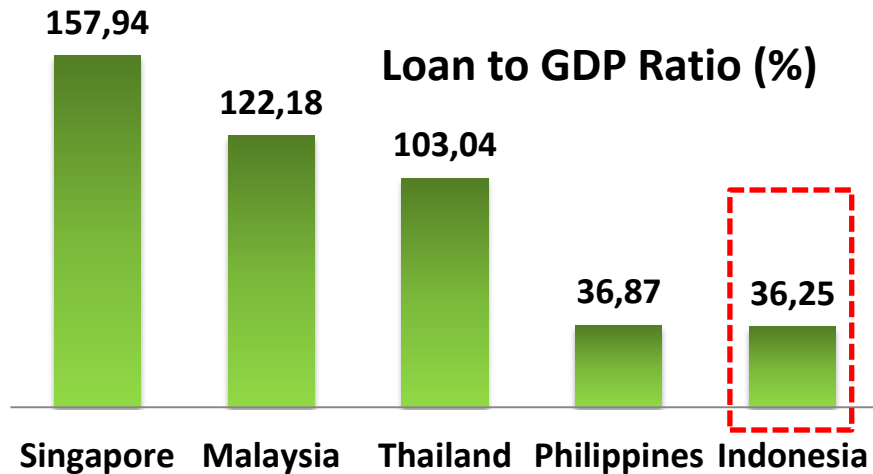


Indonesia economy is projected to recover and experience stable growth.



Indonesia Banking Performance vs Other ASEAN Countries

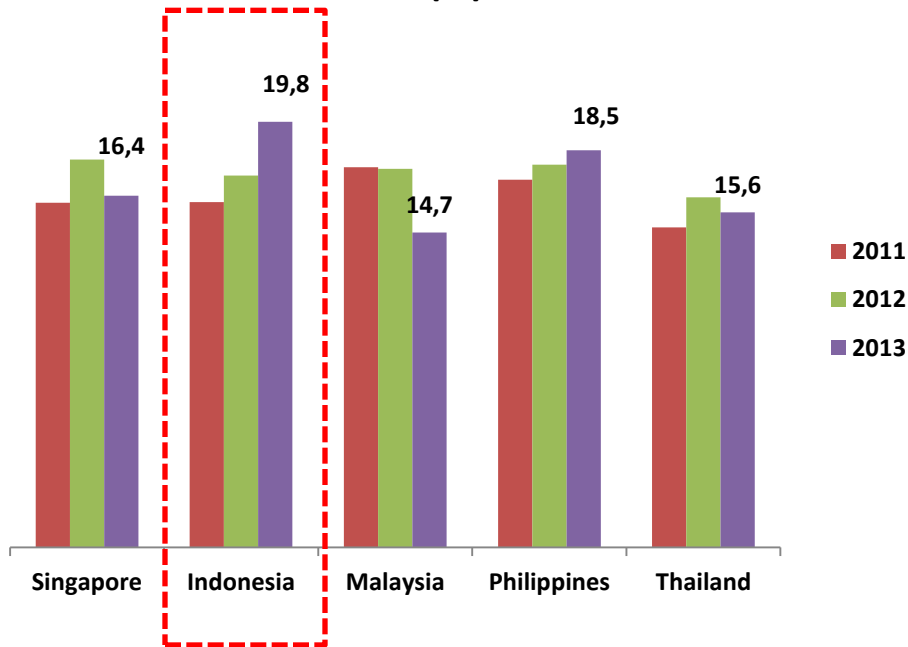
Limited Source of Fund and Low Level of Financial Access



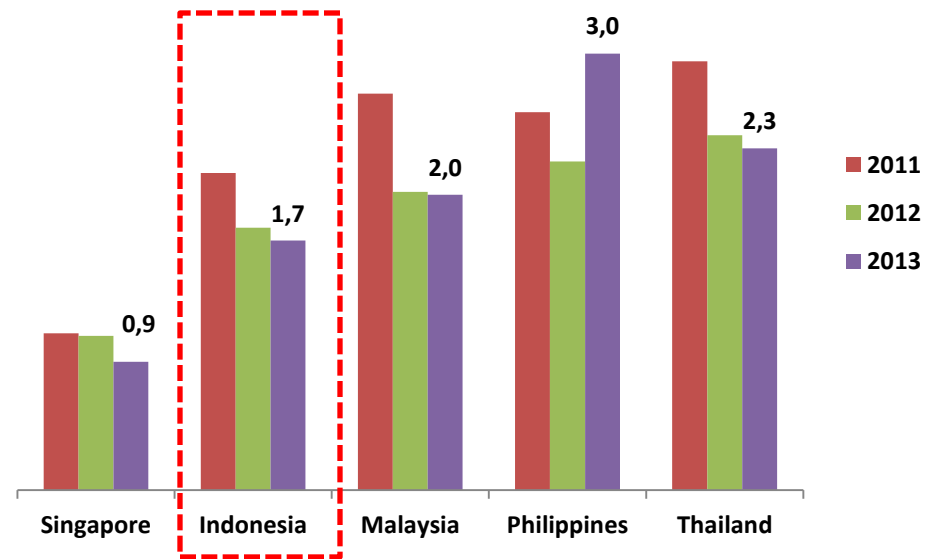
Good Performance of Indonesia Banking Industry (1/3)

For the last 3 years, the performance of Indonesia banking industry was better than other ASEAN countries. It has higher Capital Adequacy Ratio and lower Non Performing Loan.

**CAR Kawasan ASEAN 5
(%)**



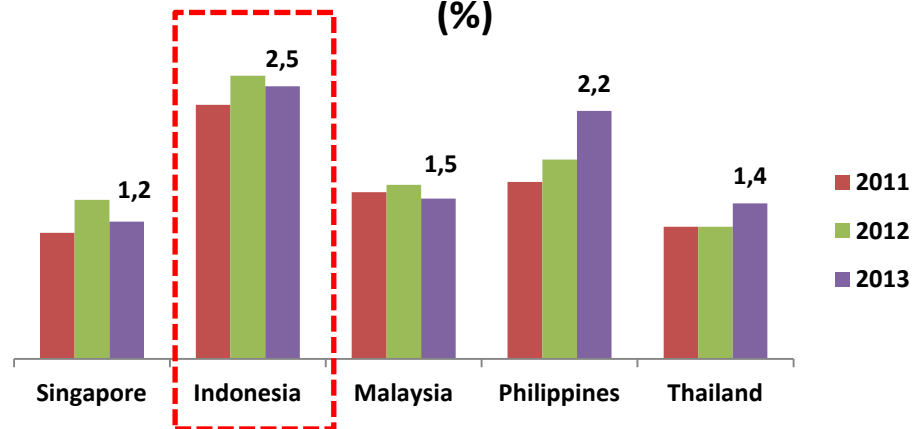
**Rasio NPL Kawasan ASEAN 5
(%)**



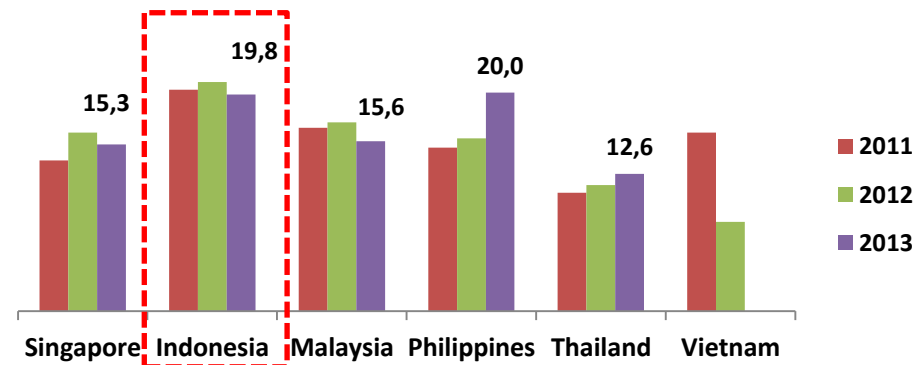
Good Performance of Indonesia Banking Industry (2/3)

The profitability of Indonesia banking industry is better than other ASEAN countries and it will attract foreign bank to expand their businesses in Indonesia.

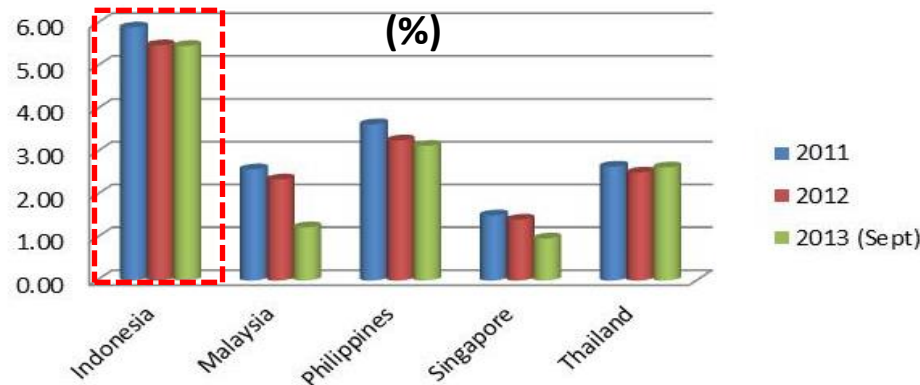
ROA of ASEAN 5 (%)



ROE of ASEAN 5 (%)



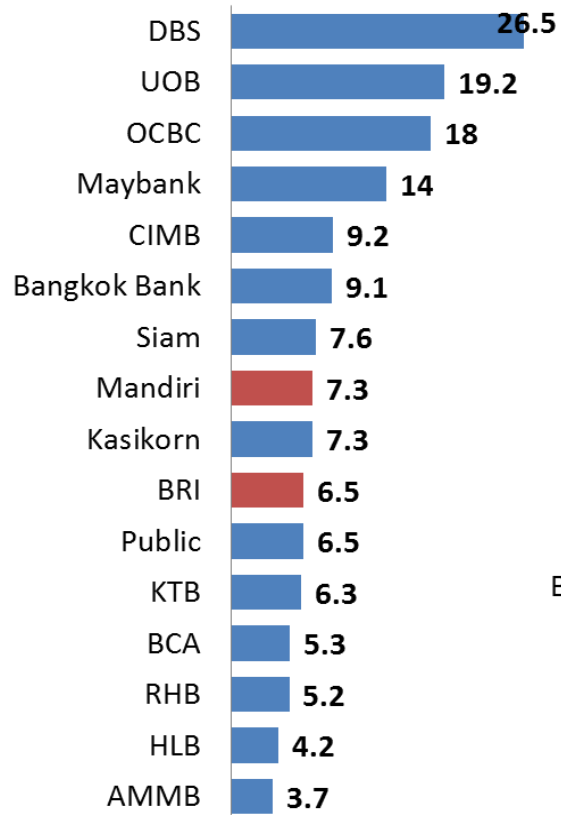
NIM of ASEAN 5 (%)



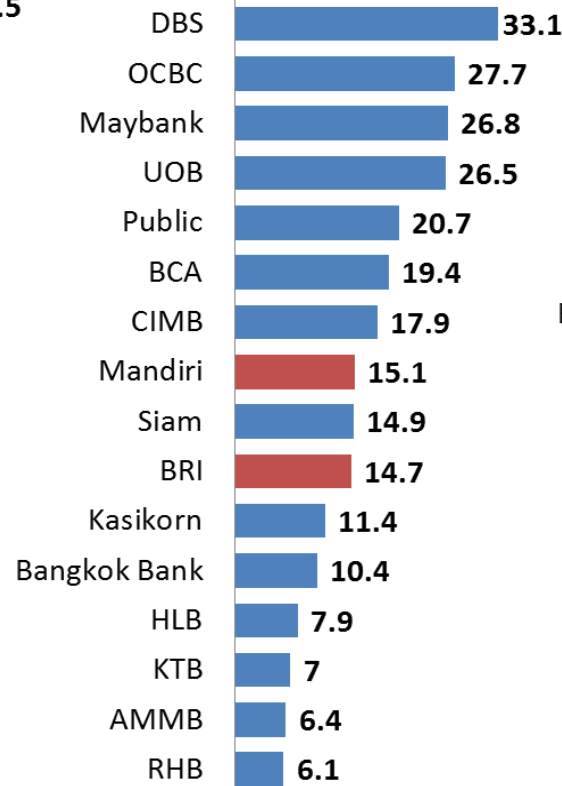
Good Performance of Indonesia Banking Industry (3/3)

... but in term of capital, market capitalization, and asset, only a few of our domestic banks have capacity to compete with other big banks in region...

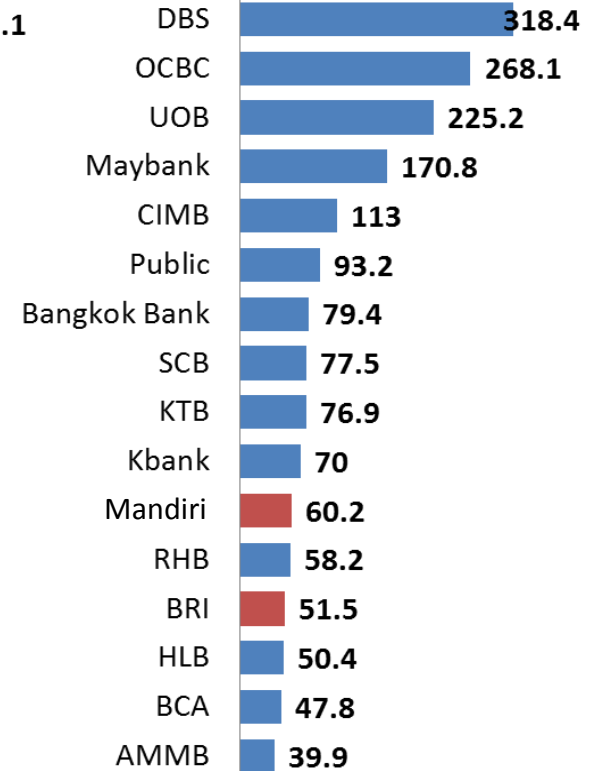
Top 16 ASEAN Banks by Equity (in USD bn)




Top 16 ASEAN Banks by Market Capital (in USD bn)



Top 16 ASEAN Banks by Asset (in USD bn)

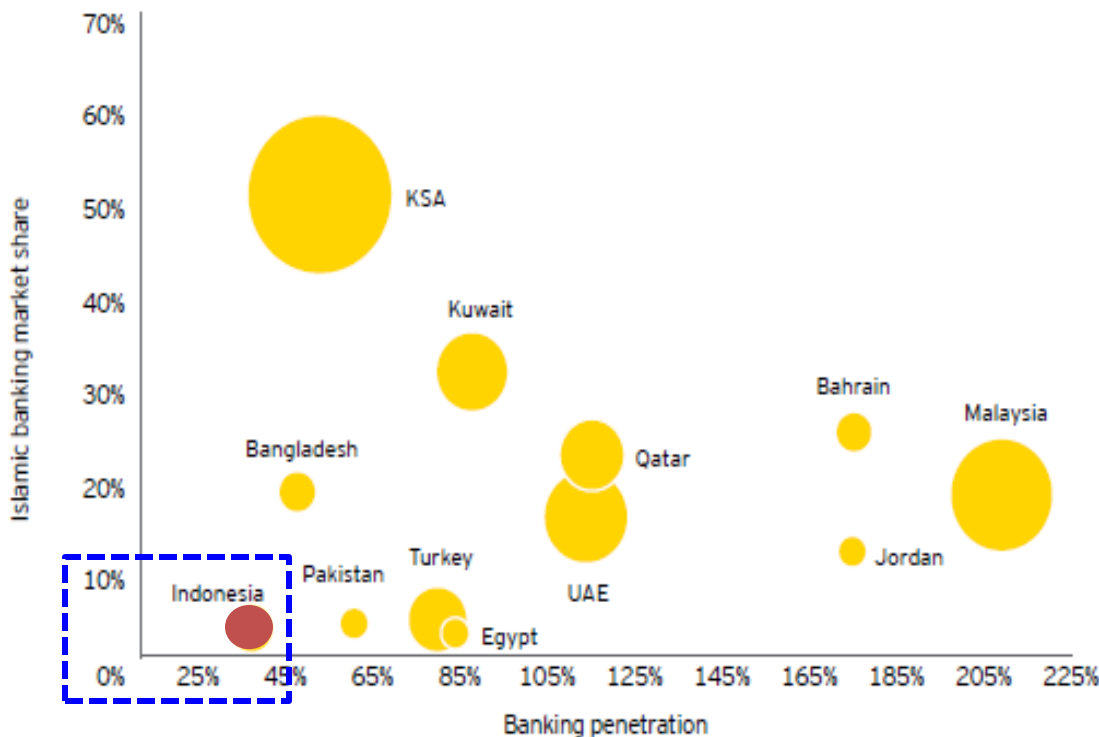




The performance and Readiness of Indonesia Sharia Banking Industry

Global Islamic Banking Industry

Banking penetration and Islamic market share



Ernst & Young (World Islamic Banking Competitiveness Report, 2013 – 2014) :

- **Indonesia**, along with other muslim countries (Qatar, Turkey, Malaysia, UAE and Saudi Arabia) known as QISMUT **is projected to be the driving factors behind the next big wave in Islamic finance in the world...**
- In the last five years, **Indonesia sharia banking industry experienced highest growth among QISMUT countries** (CAGR 41% or 3X faster than the conventional banking industry).

Indonesia Sharia Banking Industry

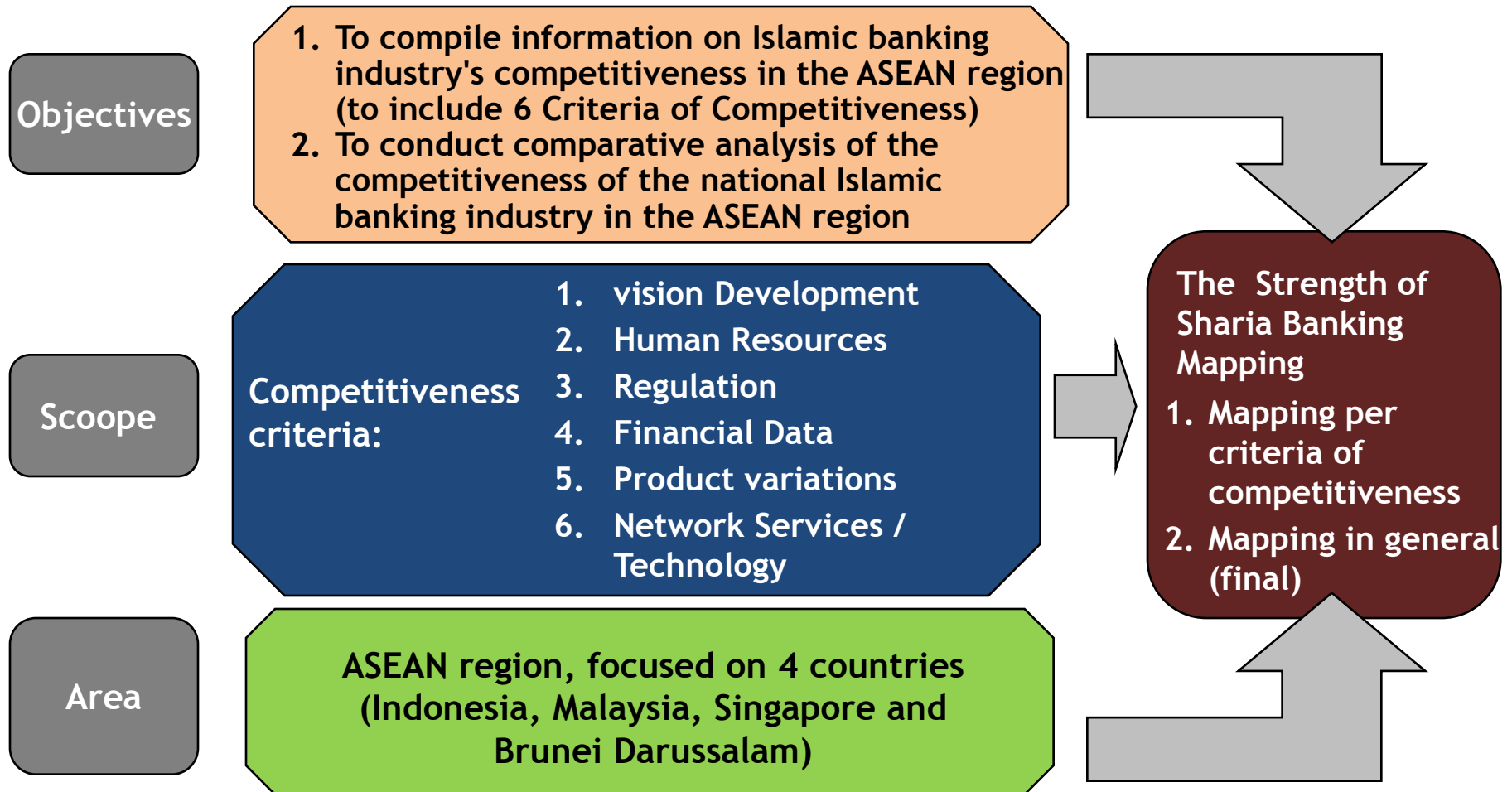
Indonesia sharia finance industry is growing rapidly, despite the rather slow growth in 2013 and 2014, showing the room to grow is still wide open....

(Trillion Rp)

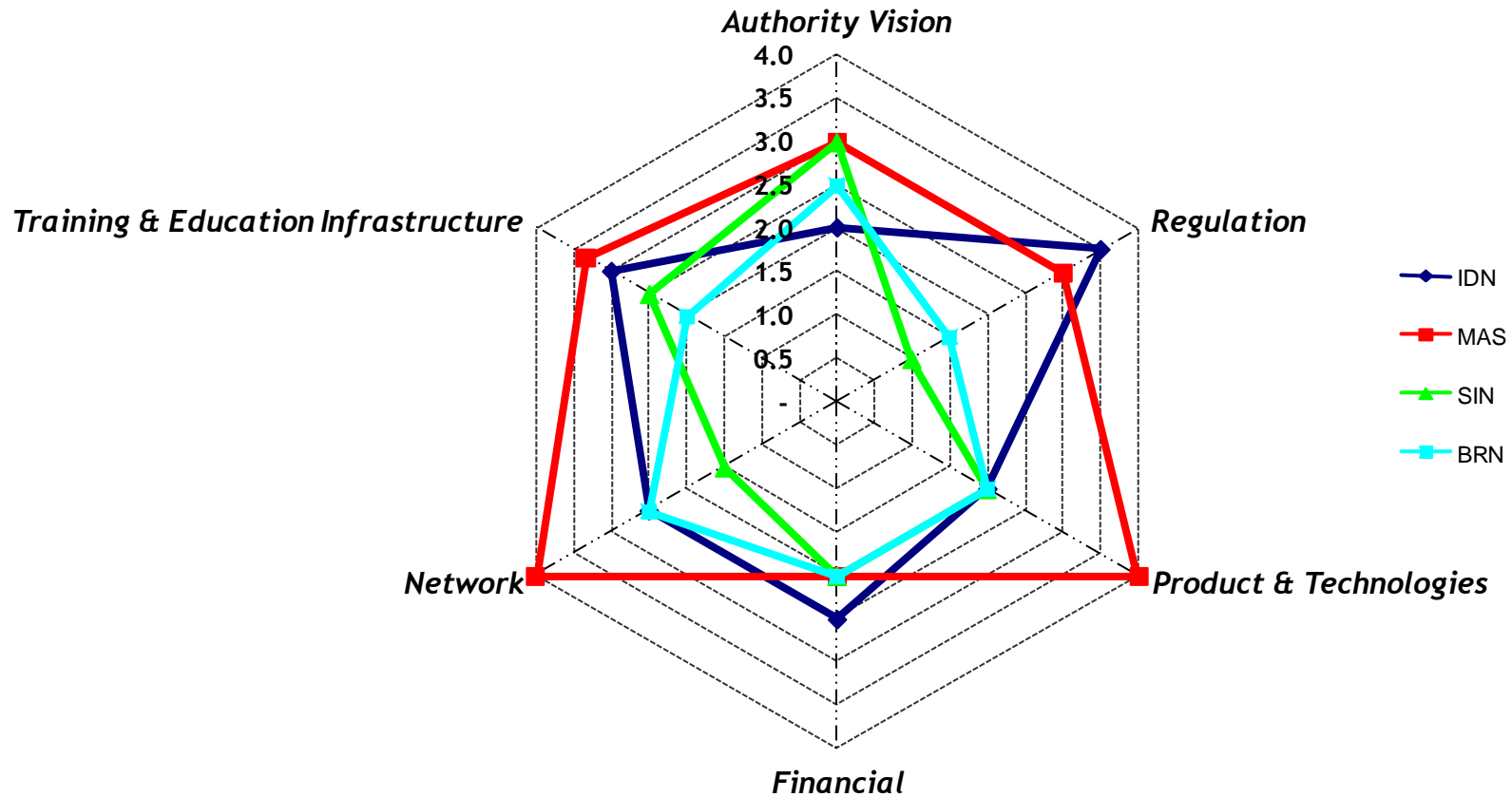
Indicator	2011	2012	2013	Q3 '14
Number of Sharia Commercial Bank	11	11	11	12
Number of Sharia Business Unit	24	24	23	22
Number of Sharia Rural Bank	155	158	163	163
Number of Branches Kantor	1,737	2,262	2,588	3,060
Total Asset (Rp. Trillion)	145.47	195.02	242.28	263,67
Asset Growth (yoy)	49%	34%	24%	11%
Market Share	3.98%	4,58%	4.89%	4,92%
Third Party Fund (Rp. Trilliun)	115.41	147.51	183.53	200,89
Financing (Rp. Trilliun)	102.66	147.51	184.12	201,48

The readiness of Sharia Banking Industry

In anticipation of the AEC, in 2009 BI conducted a research on ASEAN Islamic Banking Competitiveness (2009)....



The readiness of Sharia Banking Industry



Variabel	IDN	MAS	SIN	BRN
Authority Vision	2.00	3.00	3.00	2.50
Training & Education Infrastructure	3.00	3.33	2.50	2.00
Regulation	3.50	3.00	1.00	1.50
Product & Technologies	2.00	4.00	2.00	2.00
Financial	2.50	2.00	2.00	2.00
Network	2.50	4.00	1.50	2.50

The readiness of Sharia Banking Industry

SWOT Analysis

STRENGTHS

- The good implementation of intermediation function: High growth of financing, high FDR level
- Availability of scholars /experts of fiqh of Islamic finance.
- Strong theoretical teaching jurisprudence of Islamic finance by Higher Education Institutions
- The complete and comprehensive rules related to prudential banking, sharia compliance and accounting standard.
- The extent of the physical network services
- The high growth of Islamic banking industry.

OPPORTUNITIES

- Large domestic market potential
- Increasing the number of Islamic banks
- Applicability of tax-neutrality regulations
- Indonesian Islamic banking resilience to the global financial crisis
- High rate of Islamic banking growth will attract new investor

WEAKNESSES

- The low utilization of technology narrow the scope of services
- The low internet penetration
- The lack of availability of qualified human resources
- Limited product variations
- Lack of strong support & incentives from Government
- Lack of coordination between government agencies

THREATS

- Low market share compare to national banking assets
- Lack of coordination will lead to less interesting investment climate compared to other countries
- High FDR level may affect the quality of financing and increase credit risk exposure

- **Indonesia is the biggest market** for sharia banking industry compared to other ASEAN countries. **The benefit from the opening of market access will be in favor of other countries** than Indonesia itself.
- The national interest should be placed within the framework of **maximizing the utilization of Indonesian sharia banks market opportunities for domestic Islamic bank**.
- Relatively more open access to the national banking market **should be seen as an advantage to maximize our request for a wider access to other ASEAN countries market (counter measures)**.
- With the huge market potential of sharia banking and the desire of other ASEAN countries bank to take advantage from this great opportunities, it is **necessary to consider some measures to make national sharia bank sustain their profitability and growth (national safeguard measures)**.

Counter Measures and Safeguard Measures

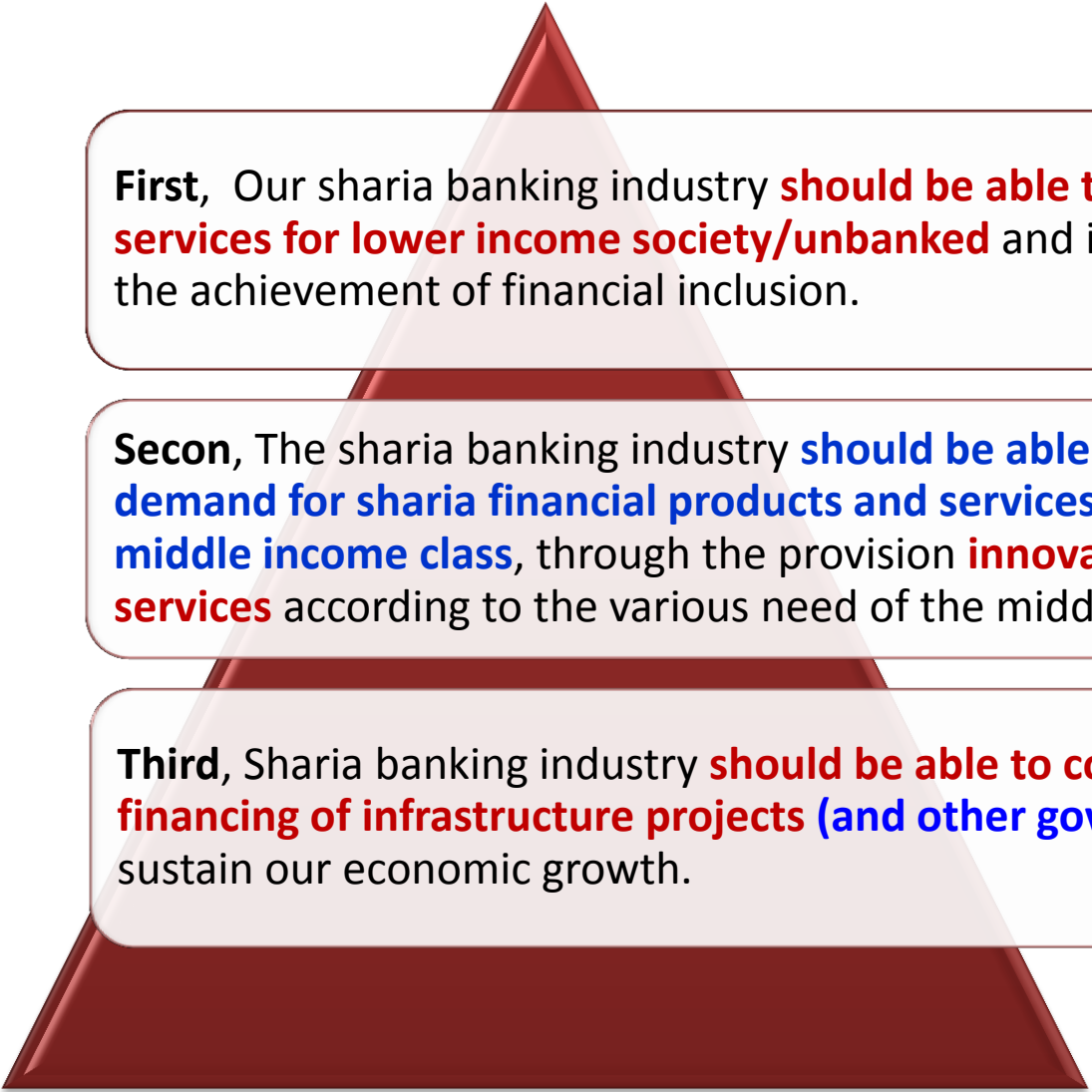
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- it is **necessary to consider some measures to make national sharia bank sustain their profitability and growth (national safeguard measures)**.





The Direction of Indonesia Sharia Banking Industry Development

The Direction of Sharia Banking Industry Development



First, Our sharia banking industry **should be able to open up access to financial services for lower income society/unbanked** and in broader scope is to support the achievement of financial inclusion.

Secon, The sharia banking industry **should be able to answer the increasing demand for sharia financial products and services as a result of the rising middle income class**, through the provision **innovative financial products and services** according to the various need of the middle income class.

Third, Sharia banking industry **should be able to contribute to the long term financing of infrastructure projects (and other government priority sectors)** to sustain our economic growth.

The Challenges and The Focus of Development

Challenges:

Small market share

Low level of competitiveness and efficiency

The increase in middle income class: more demanding customer

Product innovation and human resource limitations

The emergence of the risk of financial conglomerates

The needs of collaboration between central and regional as well as between countries

The needs of integrated regulatory and strategy across sectors

More effort to accelerate growth and improve competitiveness

Products & services innovations

Adequacy of Quantity and Qualified of Human Resources

Supporting Infrastructure Development

Education and consumer protection

Strengthening the role of the region in support of a national strategy

Strengthening risk management and corporate governance

Integrated strategy on development, regulation and supervision



Thank You