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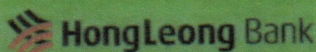


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ISLAMIC BANKING INDUSTRY IN INDONESIA: ANALYSIS OF OPPORTUNITIES AND CHALLENGES

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Abstract

Islamic Banking industry has a strategic role in the economic development, to contribute in transforming the economy in productive economic activity, value-added and inclusive. But in the era of digital financial and high competitive financial services industry as it is today, Islamic banking faces numerous challenges, mainly related to lower Information and Communication Technology (ICT) and limited capital. Therefore, the Islamic banking industry must take advantage of opportunities, namely by providing innovative products based on Information and Communication Technology (ICT) to provide a variety of options and expand the reach of the public. However, until now Islamic banking products innovation is still very limited. In addition, another thing that is important to support the development of Islamic Banking in Indonesia is to take advantage of economic growth opportunities, and increase the availability of funds of Islamic banks. By utilizing these opportunities, Islamic banking industry in Indonesia can grow and competitiveness

Keywords: Product Innovation finance, Islamic Banking, ICT, economic growth

1. Introduction

The development of Islamic financial market in Indonesia over the last few years quite rapidly, despite the Islamic financial market is a new element in Indonesia (Alam, 2010). This development is marked by the increasing number of Islamic financial institutions in Indonesia, such as Islamic banking, Islamic insurance, Islamic mutual funds, and other Islamic financial institutions. A significant advancement in the Islamic financial market a large impact on the local economy, is the Islamic banking industry. The Islamic banking industry can contribute in transforming the economy in productive economic activity, value-added and inclusive.

The strategic role of Islamic banking industry in the economic development of the people must be continuously improved by capturing the opportunities that exist in the era of digital financial characterized by the use of technology in banking products. Competition was strengthened with the entry into force of the Asean Economic Community (AEC) in 2016 for the banking industry. This becomes an opportunity and a challenge for the Islamic banking industry in Indonesia. Moreover, as a new element, the market share of Islamic banking industry in Indonesia is still low compared to neighboring countries, such as Malaysia. In addition, if seen from the overall total assets of the banking industry overall, the total assets of Islamic banking is still in the range of 5%. Islamic banking assets in 2016 was ranked far when compared with neighboring countries (Roadmap of Indonesia islamic Banking 2016).

Therefore, the Islamic banking industry must continue to strengthen itself in order to enhance the role in developing the economy in Indonesia. Islamic banking industry should be a strong industry, has a high market share, and the people's choice. Islamic banking industry which is a form of consciousness of the Muslim community will be the application of this concept in the

field of economics should be able to become a major player in the banking industry, given that most people in Indonesia are Muslims.

Islamic banking industry must take advantage of opportunities, namely by providing innovative products based on Information and Communication Technology (ICT) to provide a variety of options and expand the reach of the public. In addition, another thing that is important to support the development of the Islamic banking industry in Indonesia is to take advantage of economic growth opportunities, and increase the availability of funds in Islamic banking. By utilizing these opportunities, Islamic banking industry in Indonesia can grow and competitiveness with neighboring countries such as Malaysia and other Muslim countries.

This article is a descriptive qualitative research that analyze the various challenges for the Islamic banking industry in Indonesia and the opportunities that can be take by Islamic banking in Indonesia. The Use of ICT in the development of innovative Islamic banking products and the fulfillment of the availability of funding for Islamic banking Islamic banking industry will assist in strengthening the bargaining position, and become a strong banking industry and contribute to the economy of Indonesia

2. Literature Review

Islamic Banking

Islamic banking is anything that concerns about the Islamic banks and Islamic business units, covering institutional business activities, as well as the manner and process of conducting its business (Act No. 21 of 2008). Islamic banks are banks running their business based on Islamic principles. Islamic principles is the principle of Islamic law in the Banking activities based “fatwa” given by the agency that has the authority in setting the “fatwa” in the field of islamic (Indonesian Banking Booklet 2016). Islamic banking industry have common characteristics inherent in the banking industry, the regulation-intensive industries, and industries that are based on trust. Islamic banking system in Indonesia implemented with the **profit sharing** system, promoting the value of togetherness “*ukhuwah*”, brotherhood, and the avoidance of speculative element in every transaction (Alam, 2010).

Development of Islamic Banking in Indonesia

Islamic banking industry in Indonesia is experiencing growth that vary according to the national economic growth. The development of Islamic banking industry in Indonesia based on the Act issued by the Government, as well as the policies issued by the banking authority. One of the laws that underlie the early development of Islamic banking is Act 21 of 2008 concerning Islamic Banking which issued on July 16, 2008. By this ACT, the development of national Islamic banking industry has a strong enough legal basis, so as to encourage growth this industry more quickly. Acceleration of growth of Islamic banking in Indonesia, to this day continues to be driven by the banking authority, the Financial Services Authority towards the Islamic banking industry strong, sustainable, and contribute positively to the economic development of quality support.

With the impressive development progress, which reached an average asset growth of more than 65% in the last five years, the role of Islamic banking industry in supporting the national economy increasingly significant. This strategic role continues to be driven by some of the policies that have been issued by goverment authorities. It is evident that one of the policy priorities of the OJK (Otoritas Jasa Keuangan) in 2016 the banking sector, is the increasing contribution of Islamic banking (Indonesian Banking Booklet 2016).

Product Innovation of Islamic Banking

In carrying out its business activities, Islamic banking is based on the principle of **Profit Sharing**. Characteristics that exist in Islamic banking products, providing an alternative banking system that is mutually beneficial for both parties, the public and banking, as well as the aspects of Capital in the transaction and ethical investment, the values of togetherness and brotherhood in production, and avoid speculative activity in the transaction (Henni, 2011).

Islamic banking products, currently being developed, namely by providing a diverse range of products and banking services with a variety of financial schemes more varied. This effort is an effort described as an innovation in Islamic banking products. Islamic banking product innovation is a major strategy in the development of Islamic banking. This effort can make Islamic banking as an alternative banking system that is credible and used by all segments of society Indonesia without exception. Product innovation in line with community needs can create more variative islamic banking product (Henni, 2011). Product innovation in Islamic banking can be the product repackage and new products. Some product innovation that have been carried out by Islamic banks in Indonesia are presented in Table 1.

Table 1. Product Innovation of Islamic Banking in Indonesia

No	Bank	Product Innovation
1	BII Syariah	Platinum saving for “Musafir”, Giro paltinum, Platinum Deposits
2	Danamon Syariah	Gadai Emas Syariah
3	Bank Syariah Mandiri	Gadai Syariah
4	BNI Syariah	Gadai Emas, Islamic Mutual funds, Islamic Kredit Card

Source : Data Processed, 2016

3. Research Methods

This article aims to describe many challenges faced by the Islamic banking industry in Indonesia, and how to turn challenges into opportunities for the development of Islamic banking industry. This research is the development of conceptual models, with the analysis of a wide range of challenges faced by Islamic banking, and try to transform these challenges into opportunities. The Use of ICT in the development of Islamic banking and financing availability will help build the Islamic banking industry in order to develop. This research is a study of the documentation, and based on secondary data obtained from journals, magazines and the internet.

4. Findings and Discussion

Challenges of Islamic Banking in Indonesia

Competition in the industry, financial markets, including the Islamic banking industry continued to increase after the adoption of Asean Economic Community (AEC). Thus, there is no other option for the Islamic banking industry, except to develop themselves superior to the banking industry. However, in the development of Islamic banking, the industry is experiencing many challenges, both from internal and external factors.

Various kinds of challenges faced by the Islamic banking industry, especially after 2016 (already entered into AEC), which directly impacts the Islamic banking industry, particularly with the ASEAN Banking Integration Framework (ABIF). ABIF is ASEAN initiative which aims to create a mechanism of integration and accelerate the integration of banking through the provision of market access and a breadth of operating in ASEAN member countries.

Islamic banking industry is experiencing many challenges that must be resolved soon be growing Islamic banking. Some of these challenges are: Human Resource Capacity, at least the office network of Islamic banking in Indonesia, lack of public understanding of the concept of Islamic banking, lack of optimal institutional system and services of Islamic banking (including Islamic banking products which do not vary), and the difficulty of managing the liquidity of the fund (Booklet Banking Indonesia 2016).

Opportunities – Development of Islamic Banking Industry in Indonesia

Although in 2016 the Islamic banking industry has improved slightly slowed down and decreased share of Islamic banking assets of the national banking assets amounted to 4.67% compared to the previous year 4.9% (Indonesian Banking Booklet 2016) Islamic banking is still able to survive and thrive. There are several opportunities that can be exploited by Islamic banking industry so that the industry can survive, parallel even able to the conventional banking industry.

In 2015 and 2016 various regulations issued by the government to stimulate the growth of Islamic business. During 2015, has published eleven provisions of Islamic banking by the OJK. Even in 2016 the Government has established the National Committee for Islamic Finance (KNKS) to encourage the development of this industry.

Momentum that also be able to accelerate the development of the Islamic finance industry in Indonesia, is the conversion of some of the Bank into an islamic bank, in 2016. Conversion of Regional Development Bank (BPD) Aceh into Islamic banks have extended the assets of Islamic banking industry amounted to 20 trillion. This conversion Momentum which will then be immediately added to the conversion of the two banks and Islamic business units in 2017, will further increase the market share of Islamic banking industry. Additional momentum for the development of this industry is a capital increase to be carried out by Bank Muamalat Indonesia. Capital increase should be followed by other Islamic banking, as an effort to overcome the problems facing by Islamic banking deals with limited capital or funding.

Another thing that can encourage the development of Islamic banking industry in Indonesia is the encouredge from OJK who have made roadmap Islamic banking development, product development and education stimulus to Islamic banking with the agenda of the annual seminar conducted by the OJK. In summary, the challenges faced by Islamic banking in Indonesia, and the opportunities that can be taken by Islamic banks are presented in Table 2 as follows

Table 2. Challanges and Opportunities of Islamic Banking in Indonesia

No	Challanges	Opportunities
1	Lack of Islamic banking office networking in Indonesia	<ul style="list-style-type: none"> - Conversion some of Regional development Bank (BPD) into Islamic Bank - Improvement of Supporting infrastructue and institutional - Improvement of cooperation program between bank including conventional bank - Improvement of Working Group Islamic Banking (WGPR) role

2	Quantity and Quality of Human resource Management (HRM)	<ul style="list-style-type: none"> - Economic Demography : Increasing of HRM - Education and Communication
3	The low of understanding and awareness to islamic concept	<ul style="list-style-type: none"> - Islamic Banking education by OJK and others institutions - Product innovation which can change people behavior in accordance to islamic concept (social dimention)
4	Low of Islamic Banking system management	<ul style="list-style-type: none"> - Encouragement from OJK to the quality of <i>good governance</i>
5	Low service of islamic Banking	<ul style="list-style-type: none"> - The Policy about The Islamic Banking Quality service - Improvement of Service Excellene
6	Lack of product variaty	<ul style="list-style-type: none"> - The Policy about Islamic Banking product innovation - Product Customasation to the society preferention (proper to islamic prinsiple) - Product innovation based on ICT
7	Inadequate Capital	<ul style="list-style-type: none"> - POJK No 20 tahun 2015 : issued of Efek Beragunan Asset (EBA) Syariah - Economic growth and demography bonus: improvement of individual saving - Capital expantion Planning, example: Bank Muamalat Indonesia

Source : Indonesia Islamic Banking Roadmap, data processed, 2016

Development of Islamic Banking Model

The development direction of the National Banking accordance by OJK is comprehensive and integrates with the development directions of capital markets and non-bank financial industry. Towards the development of Islamic banking in the medium term is the development of products and quality services, innovative, different, and superior (distinct) of the products of conventional banking, and the expansion of an extensive network in order to meet the needs of the community to the Islamic financial services (Indonesia Booklet Banking 2016).

Based on the Roadmap Indonesian Islamic Banking 2015-2019, the vision of Islamic banking developpment is to make the Islamic banking which contribute significantly for sustainable economic growth, equitable development, and stability of the financial system, and highly competitive. This vision, is the development of a policy on the development of Islamic banking in previous years focused on: strengthening intermediation Islamic banking sector productive economy, development and enrichment of Islamic banking products are more targeted, increasing synergy with the parent bank, increased education and communication

(focus on parity and distinctiveness), and the improvement of good governance and the risk management of Islamic banking business activities and strengthening surveillance systems. The policy for Islamic banking in Indonesia is described in Table 3.

Table 3. The Policy For Islamic Banking in Indonesia 2015 - 2019

No	The Direction of Islamic Banking Development
1	Strengthening synergy Policy between authority, government, and stakeholders
2	Strengthen Capital and business scale, efisiensi through working programs
3	Built fund structure to encourage the expansion of funding segment
4	Repair the quality service and product variety
5	Improve the quality of Human Resource Management (HRM), Information Technology (IT) and others infrastructure
6	Meningkakan literasi dan preferensi masyarakat
7	Memperkuat harmonisasi pengaturan dan pengawasan

Sourcer : Indonesia Islamic Banking Roadmap 2016

Based on the analysis of the challenges faced by Islamic banking, and a wide range of opportunities that exist, and by referring to the policy of Islamic banking development in Indonesia by OJK, the main strategies that can be carried out by Islamic banks in Indonesia are as follows:

The effort to answer the challenges of Islamic Banking

One of the challenges that must be answered by the Islamic banking is the quality of banking services (eg: Islamic banking products). This challenge can be answered by providing innovative Islamic banking products. Islamic banking product innovation is a requirement in order to follow the trend of Islamic banking into a strong industry and become the choice for society. Islamic banking must innovate product by using the opportunities of ICT, by providing diverse products in order to develop properly. Islamic banking product innovation is an effort that must be done, so that Islamic banking can grow and compete with conventional banks and other financial institutions.

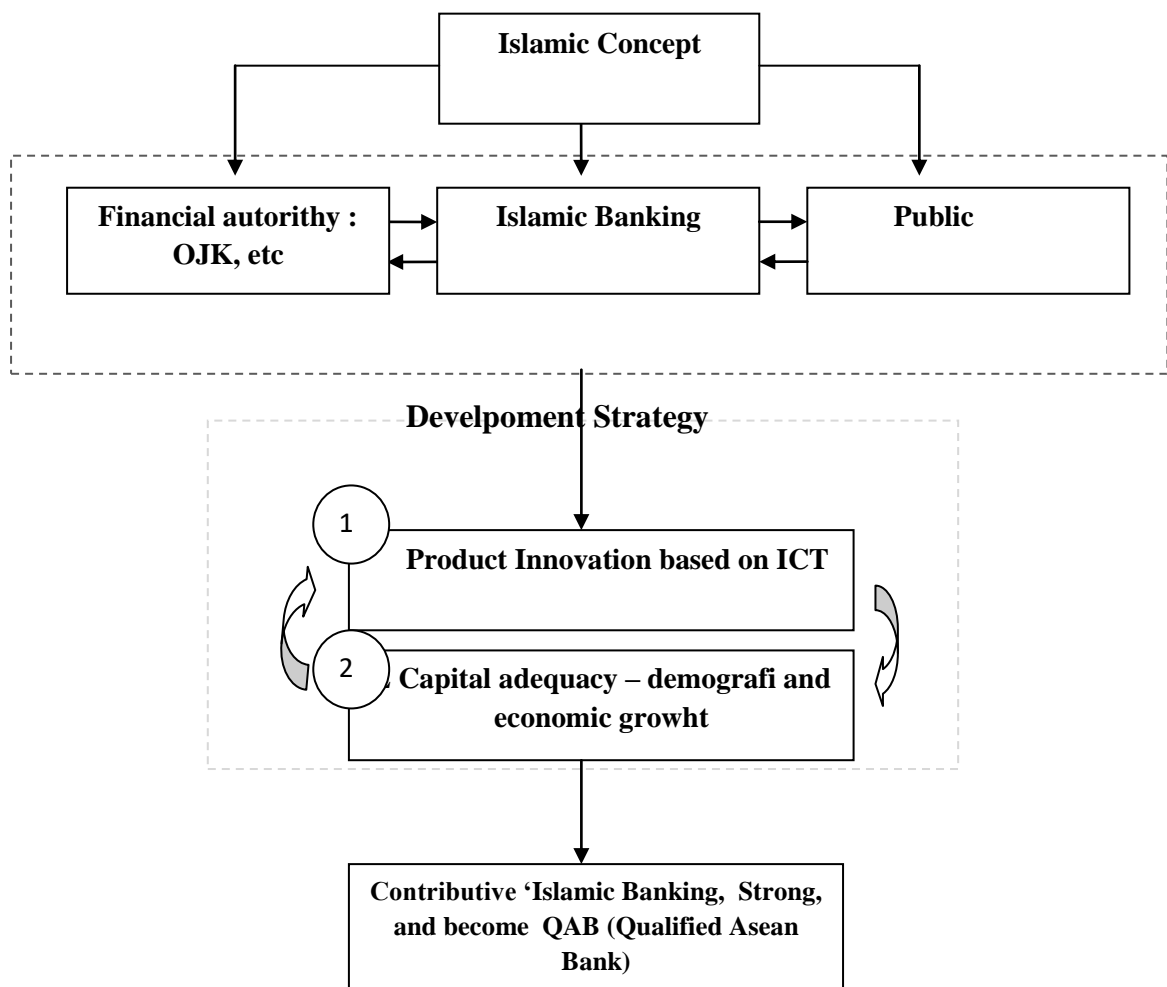
Moreover, when viewed from the aspect of contribution to the Indonesian economy, the range of products and Islamic financial instruments (read: product innovation) will be very helpful. The use of Islamic financial products that are closer to the real sector, will create a good relationship between the financial sector to the real sector. The more use of products and Islamic financial instruments, speculative transactions will be reduced. This condition can strengthen the stability of the financial system as a whole. This of course will create a medium-term price stability and long-term, so the shooting went in a healthy financial activities, creating a healthy business climate, and ultimately business masyarakat will also be developed.

Islamic banking product innovation to be done by the Islamic banking industry is in accordance with the policy direction that has been adopted by OJK. In product innovation, the Islamic banking industry must intelligently exploit the opportunities of technological development with the provision of ICT-based products, so it is more interested for people. Product innovation and Islamic banking should pay attention to economic and social dimensions (MS, 2015). From the economic aspect, the innovative Islamic banking products are made to the product development should be in line with the needs of the customer, but to

remain in compliance with the rules of Islamic (Islamic compliance). Thus, product innovation can spawned bank products varied (Henni, 2011). As the Islamic banking industry that is based on Islamic values, Islamic banking has the strategic role of the social aspect, namely by educating the public, through innovative products that can change people's behavior to Islamic perspective (MS, 2015)

From the description, to answer the various challenges, the development of Islamic banking has to do with the synergy between the financial authorities (OJK as a legal institution in issuing the direction of policy), Islamic banking, and public as the customers using Islamic banking products to take advantage of various opportunities which exists.

Figure 1
Development of Islamic banking industry Model (Using ICT and the Capital adequacy)



In order to achieve Islamic Banking which contributive, strong, competitive, and become the Qualified Asean Bank (QAB) it is need a synergy between the financial services authority, Islamic banking, and the communities using ICT in product innovation, and efforts to meet capital adequacy, so that the process of product innovation can be met. Because this effort required supporting facilities, such as the development of adequate infrastructure in the framework of ICT-based product innovation. By contrast, ICT-based product innovation will help Islamic banking to meet liquidity by providing products varied according to public

preferences. Infrastructure development is done in order to enable a wide range of information services, communication, and computation can be done.

ICT in Islamic banking

It is important for Islamic Banking industry to turn challenges into opportunities by using ICT to improve competitiveness with conventional banking. In the context of the challenges and business opportunities in the field of Islamic banking, the use of ICT in the Islamic banking industry is still low, so that the Islamic banking industry should be encouraged to increase the use of ICT in both the governance (good governance), in accordance with the policy direction of the development of Islamic banking by OJK, and innovative islamic banking products. In order to improve good governance, Islamic banking must using of ICT to establish Islamic banking information system to facilitate all existing transaction processing, while enabling new Islamic banking product innovation. Islamic banking product innovation based on ICT must be supported by adequate information systems (ICT-information systems).

ICT and Innovative Islamic Banking Products

Islamic banking product innovation is a major pillar in the development of Islamic banking. In product innovation, Islamic banking must consider a variety of considerations. Islamic banking product innovation should using ICT in order to create Islamic banking products which competitive with conventional banking products. A range of innovative products with the use of ICT in banks which have been known by the public is ATM (Automated Teller machine), Phone Banking, Debit card, EFT post, Cash Management, Corporate Internet banking, and Individual internet service. But only few islamic banking has provided this kind of product.

Opportunity product innovation based on ICT, which should be developed by the Islamic banking in Indonesia such as international trade finance, syndicated financing, Margin During Construction (MDC), hybrid take over and refinancing, factoring, KPRS pivot, financing reimburs, IMBT and Ijarah Maushifah fizza Zimmah, and Musharaka Mutanaqishah

5. Conclusion and Suggestion

Islamic banking industry in Indonesia must continue to be developed. Development of the Indonesian Islamic banks should be encouraged by all related parties, both financial authorities, Public, and academics. The development of Islamic banking should not contradict national Islamic banking policies formulated in accordance with the Roadmap national Islamic Banking by the Authority, OJK.. The Using information technology and the Capital adequacy will help the Islamic banking industry thrive, survive, to be Strong banking system, and contribute to the national economic development.

Using the information and communication technology (ICT) in Islamic banking to meet the challenges faced by the Islamic banking is product innovation based on ICT. Product innovation based on ICT is the solution that can be applied to develop the Islamic banking industry in Indonesia. In addition to innovative products based on ICT, Islamic banking should work to improve its capital adequacy by exploiting the opportunities of economic growth and demographic bonus to make efforts in accordance with Islamic values to address one of the classic problems of Islamic banking in Indonesia, the difficulty of liquidity funds. By product innovation, and improve capital adequacy, the Indonesian Islamic banking can be a Strong, contributive, and highly competitive, become a Qualified Asean banking (QAB)

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