

# INDONESIA ISLAMIC BANKING DEVELOPMENT ROADMAP

**2020-2025**









**Prof. Wimboh Santoso, Ph.D.**

Chairman of the Board of  
Commissioners of the Financial  
Services Authority

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Islamic finance must provide value added for the society. Indonesian Financial Services Authority (OJK) is developing the Islamic economy and finance ecosystem in synergy to facilitate halal industry development. In addition, OJK strives to create competitive and efficient Islamic financial institutions through technology adoption and by increasing business scale.

*(Annual Gathering of Financial Services Industry, Financial Services Authority, 2020)*

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The Islamic banking industry must play a greater role in developing the national Islamic economy ecosystem



Praise to God Almighty for His grace and guidance, the Financial Services Authority (OJK) has continuously developed the national Islamic banking industry, which is now entering its third decade since inception in 1992. Through various strategic plans included in the Indonesia Islamic Banking Roadmap ended in 2019, the Financial Services Authority (OJK) has achieved several noteworthy accomplishments with a tangible contribution to national Islamic banking development. However, numerous endeavours and initiatives are still required to further promote Islamic banking in Indonesia. To that end, the Financial Services Authority (OJK) has compiled the Indonesia Islamic Banking Development Roadmap 2020-2025.

The Roadmap was compiled as a catalyst to accelerate Islamic banking development in Indonesia based on three directions: (i) strengthening Islamic banking identity; (ii) encouraging synergy within Islamic economy ecosystem; and (iii) strengthening licensing, regulation and supervision. As part of Indonesian Banking Development Roadmap, this roadmap is a strategic measure by the Financial Services Authority to harmonise and align the direction of Islamic economic development in Indonesia, particularly targeting the Islamic financial services industry in the Islamic banking sector.

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Extraordinary global conditions have forced us into a New Normal era due to the Covid-19 pandemic, which has changed the socio-economic system of society, demanding greater vigilance in terms of social distancing. On the other hand, however, concern for helping each other has increased, particularly regarding the economic issues. This is a challenge and an opportunity for the Islamic banking industry in terms of offering digital-based services and meeting societal needs by contributing to post-pandemic economic development.

We have reached a crucial moment for the Islamic banking industry, to strengthen its identity within the banking industry by promoting a resilient and competitive image of Islamic banking, while providing a tangible socio-economic contribution. The development role of Islamic banks in terms of a national Islamic economic ecosystem must be improved to contribute to national socio-economic development. The Islamic banking industry is a key driver connecting the real sector, commercial finance, social finance as well as religious sector within an ecosystem, hence building synergy for the Islamic economy ecosystem. Therefore, I urge all parties to synergise and develop the Islamic economy by optimising the role of Islamic banks.

In closing, allow me to express utmost appreciation to all parties who provided inputs and recommendations when compiling this roadmap. The Indonesia Islamic Banking Development Roadmap 2020-2025 is a living document, which will be refined and honed as necessary based on dynamic changes in the Islamic finance industry that require a relevant and timely policy response. May God Almighty bless us and provide guidance in our efforts to develop a resilient and competitive national Islamic banking industry with a tangible contribution to the national economy and social development in Indonesia.

**Heru Kristiyana**

Executive Head of Banking Supervision

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## Executive Summary

The Islamic banking industry in Indonesia has continued to expand despite several existing strategic issues and challenges. Based on the Islamic Banking Transformation Study performed in 2018, several strategic issues are impeding faster growth of the Islamic banking business, including a lack of business model differentiation, suboptimal human resources in terms of quality and quantity, as well as low levels of literacy and inclusion.

In addition, extraordinary global conditions have forced us into a New Normal era due to the Covid-19 pandemic, which has changed the social and economic behaviour, demanding greater vigilance in terms of social distancing. On the other hand, however, concern for helping each other has increased, particularly regarding economic issues. This can be considered as a challenge as well as an opportunity for the Islamic banking industry in terms of offering digital-based services and meeting societal needs by contributing to post-pandemic economic development.

The direction of Islamic banking development was previously stated in the Indonesia Islamic Banking Roadmap 2015-2019. Continuing effort for Islamic banking development, also considering various strategic issues, opportunities and challenges, OJK has compiled the Indonesia Islamic Banking

Development Roadmap 2020-2025, with a vision to create a resilient and competitive Islamic banking industry that provides a significant contribution to the national economy and social development.

The direction of Islamic banking development aligns with various policies, including external policies at the national level, such as the



***In addition, extraordinary global conditions have forced us into a New Normal era due to the Covid-19 pandemic, which has changed the social and economic behaviour, demanding greater vigilance in terms of social distancing. On the other hand, however, concern for helping each other has increased, particularly regarding economic issues. This can be considered as a challenge as well as an opportunity for the Islamic banking industry in terms of offering digital-based services and meeting societal needs by contributing to post-pandemic economic development.***

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Medium-Term National Development Plan (RPJMN) 2020-2024 and the Indonesia Islamic Economy and Finance Masterplan 2019-2024, as well as internal policies at OJK, namely the Indonesia Financial Services Sector Masterplan (MPSJKI) and Indonesia Banking Development Roadmap (RP2I). As an integral part of RP2I, this roadmap is a strategic measure by OJK to harmonise the direction of Islamic economic development in Indonesia, particularly the financial services industry in the Islamic banking sector.

The Roadmap has an overarching Vision to be achieved based on three pillars and the strategic initiatives contained therein as follows:

### **Pillar 1: Strengthening Islamic Banking Identity**

As the underlying and fundamental identity of Islamic banks, end-to-end Islamic values must be applied to all aspects of Islamic banking, namely from the operational side to human resources.

The comprehensive **application of sharia values** will establish an image of integrity, professional as well as disciplined Islamic banks in the eyes of the public. Regarding product development, Islamic banks will

be encouraged to differentiate its business models to conventional banks by **creating unique sharia-based products**. Innovative and creative product development is prerequisite for industry players and regulators to create unique products that attract public attention. In addition, underlying factors to **strengthen capital and efficiency** must be improved continually to boost competitiveness and resilience amidst post-pandemic economic uncertainty.

Finally, the rapid development and proliferation of technology demands appropriate technology-based infrastructure development by Islamic banks to serve customers faster and more conveniently. To that end, **rapid yet relevant digitalisation** is required as value added for the customer when interacting with the Islamic banking industry.

### **Pillar 2: Encouraging Synergy within Islamic Economy Ecosystem**

**The halal industry, Islamic financial services, Islamic social finance and the religious sector** are the four major sectors of the Islamic economic ecosystem, which serves as a network facilitating those four sectors by connecting economic activity with financial transactions within the ecosystem. Synergy

## Vision:

Creating a resilient and competitive Islamic banking industry with a significant contribution to the national economy and social development

## Three Pillars of Development:

- **Pillar 1:**  
Strengthening Islamic Banking Identity
- **Pillar 2:**  
Encouraging Synergy within Islamic Economy Ecosystem
- **Pillar 3:**  
Strengthening Licensing, Regulation and Supervision

and integration within the ecosystem are critical to ensure all financial activities utilise Islamic financial services. Islamic banks are required to provide competitive Islamic financial products and services that meet the specific needs of the ecosystem. Therefore, OJK issued **OJK Regulation (POJK) No. 28/POJK.03/2019 concerning Banking Synergy under Sole Ownership for Islamic Banking Development**, which allows Islamic banks to improve product and service quality via platform sharing, where Islamic banks can cooperate in synergy with other banks under sole ownership to provide various supports, including human resources, information technology, office network and other infrastructure.

### **Pillar 3: Strengthening Licensing, Regulation and Supervision**

**Expediting the licensing process** is critical to accelerate Islamic banking industry development. This could be achieved by evaluating HR capacity and developing IT systems to support a faster licensing process. In addition, **existing regulations must safeguard Islamic banking development** in line with industry best practices, current technology and the latest economic developments. Islamic banking regulations

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are constantly harmonised and aligned with international standards, including those issued by the Islamic Financial Services Board (IFSB) as well as the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), to increase regulatory credibility in Indonesia. Finally, the development of supervisory tools, along with organisational evaluations, HR adequate levels and higher supervisory capacity through capacity building will strengthen **Islamic banking supervision**.

Based on the Vision, this roadmap lays the developmental foundation for a resilient and

competitive national Islamic banking industry that provides a tangible socio-economic contribution in Indonesia. The Islamic banking industry is expected to drive the economy by linking the real sector, commercial finance, social finance and religious sector within an Islamic economic ecosystem, thus building synergy and a communal (*jama'ah*) spirit. In addition, Islamic banking is expected to become the foremost banking industry in terms of its contribution to the Sustainable Development Goals (SDGs) and applying the principles of Creating Shared Value (CSV) as the very essence of *maqāṣid al-sharī'ah* in the Islamic economy.

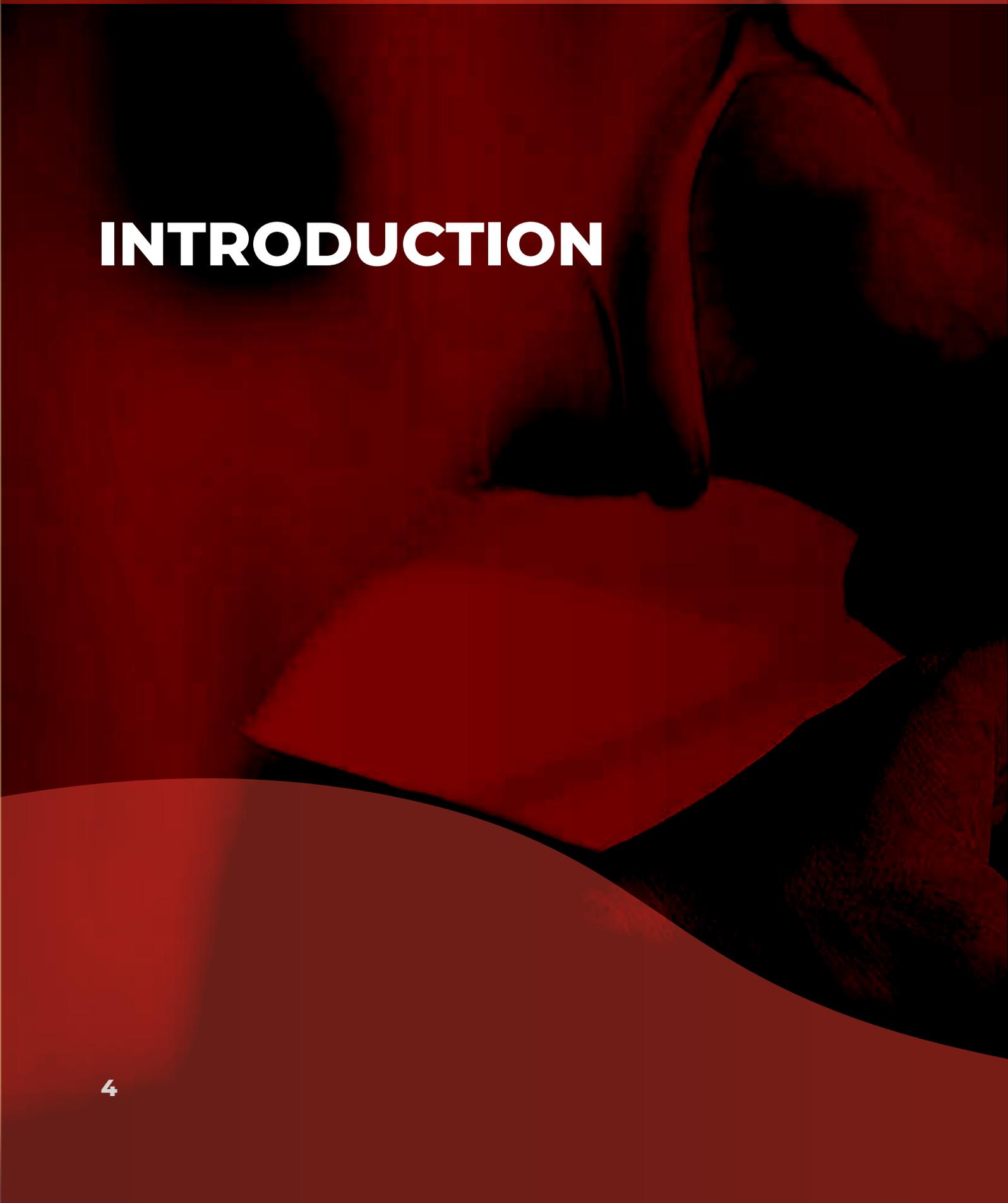


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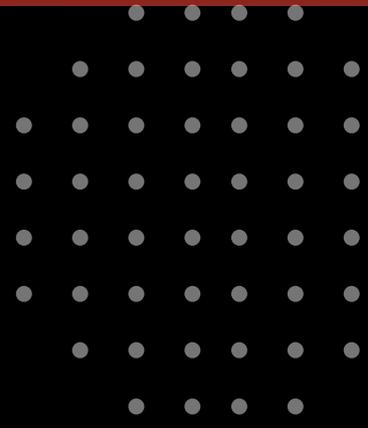
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# INTRODUCTION



# Indonesia Islamic Banking Roadmap 2015-2019: Milestones and Achievements





**13<sup>th</sup> September  
2018**

Conversion of PT  
Bank NTB into PT  
Bank NTB Syariah

**KNKS**

**3<sup>rd</sup> January  
2019**

Inauguration of  
National Islamic  
Finance Committee  
(KNKS) Executive  
Management



**9<sup>th</sup> December  
2019**

Issuance of OJK  
Regulation (POJK) No.  
28/POJK.03/2019  
concerning Banking  
Synergy under Sole  
Ownership for Islamic  
Banking Development

## **Achievement Milestones of Islamic Banking in Indonesia**

The Indonesia Islamic Banking Roadmap 2015-2019 contained seven policy directions, with various notable accomplishments achieved by the end of 2019. The first policy direction, strengthening policy synergy between the authorities, government and other stakeholders, was achieved through formation of the National Islamic Finance Committee (KNKS) based on a Presidential Regulation in 2016, with the KNKS Executive Management inaugurated in 2019.

Other policy direction, regarding strengthening capital and business scale as well as improving efficiency were achieved through IPOs launched by BTPN Syariah and BRI Syariah in 2018. In addition, the establishment of municipally owned (BUMD) Islamic banks was realised through PT Bank Aceh Syariah in 2016 and PT Bank NTB Syariah in 2018. At the end of 2019, OJK also issued a banking synergy regulation to implement business process leveraging.

# Preparing the Indonesia Islamic Banking Development Roadmap 2020-2025



The roadmap was prepared in stages, from scientific studies to extensive discussions with various stakeholders.



**July  
2018**

## **Preliminary Studies**

Preparations for the Islamic banking transformation strategy began by looking at the opportunities and challenges faced.



**Aug-Sep  
2018**

## **Data collection through IDI and FGD**

In-depth interviews (IDI) and focus group discussions (FGD) were held with Islamic bankers, customers, academics, regulators and businesses.



**Jan  
2020**

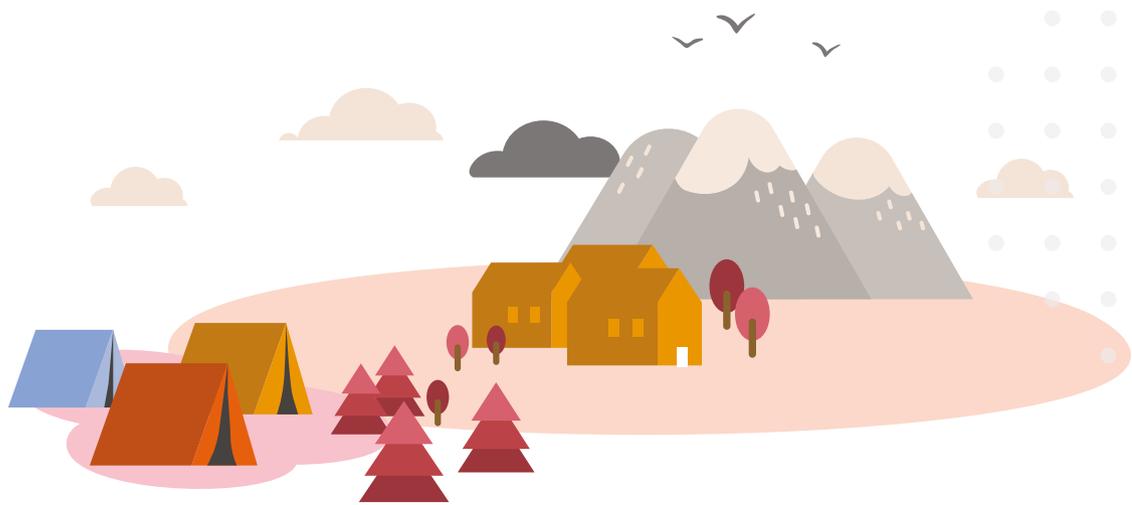
## **Formulating the Indonesia Islamic Banking Development Roadmap 2020-2025**

**Nov  
2019**

## **Finalisation of the Indonesia Islamic Banking Development Roadmap 2020-2025**

Finalisation of the action plan in conjunction with the Indonesia Islamic Banking Transformation Team and various relevant work units at OJK.





**Oct-Nov  
2018**

**Online &  
Offline Surveys**

Offline surveys were performed in three cities, namely Aceh, Palangkaraya and Kupang. Online surveys covered the Jabodetabek metropolitan area.

**Des  
2018**

**Islamic Banking  
Year-end Seminar**

This seminar to disseminate research or policy review results by OJK was attended by Islamic bankers (Islamic banks, Islamic windows and Islamic rural banks), government ministries and agencies, as well as university representatives.

**Jun-Jul  
2019**

**Islamic Banking  
Transformation FGD (Stage 1)**

This series of focus group discussions (FGD) began with internal meetings between relevant work units in OJK, which were later extended to all directors of Islamic banks and division heads of Islamic windows. The final FGD included representatives from Islamic rural banks throughout Indonesia.



**Sep-Oct  
2019**

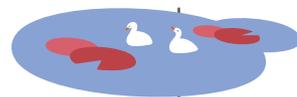
**Islamic Banking  
Transformation FGD  
(Stage 2)**

Various government ministries, institutions and associations related to Islamic finance participated in the FGDs.

**Aug  
2019**

**Establishment of  
Indonesia Islamic Banking  
Transformation Team**

The internal Indonesia Islamic Banking Transformation Team was tasked with formulating a measured strategy and action plan.



# Background of the Indonesia Islamic Banking Development Roadmap 2020-2025

**The roadmap is a catalyst to accelerate Islamic banking development in Indonesia.**

**6,24%**

Market Share of Islamic Banking  
Assets in September 2020

The Indonesia Islamic Banking Roadmap 2015-2019 has ended in 2019, with a new chapter in the journey of Islamic banking in Indonesia reaching a high point. As of September 2020, the market share of Islamic banking assets increased to 6.24% compared with 4.87% in 2015. The opportunity for Islamic banking to increase

market share is also a corollary of

changes in global conditions, macroeconomic conditions, technology, demographics and the microeconomy, which have impacted Indonesia's financial landscape. Therefore, the new roadmap for 2020-2025 is a catalyst to accelerate Islamic banking development in Indonesia.

**“ The Government will establish halal industry centres, supported by the largest Islamic financial system globally. ”**



**K.H. Ma'ruf Amin,**  
Vice President of the  
Republic of Indonesia  
2019-2024

The Vice President of the Republic of Indonesia, K.H. Ma'ruf Amin, has publicly stated that the Government will establish halal industry centres, supported by the development of Islamic financial system, seeking to become the largest in the world. The development of national Islamic finance also aligns with global initiatives. According to the Islamic Financial Services Industry

Stability Report 2020, Indonesia has the ninth largest Islamic banking industry in the world in terms of total assets. Therefore, the Indonesia Islamic Banking Development Roadmap 2020-2025 represents a strategic measure to align the direction of Islamic economic development in Indonesia, focusing on Islamic financial services in Islamic banking.

# State of Islamic Banking

## Branches

14 Islamic Banks

1.943

20 Islamic Windows

390

162 Islamic Rural Banks

626

Islamic banking in Indonesia, consisting of Islamic banks, Islamic windows and Islamic rural banks, continues to expand. As of September 2020, 14 Islamic banks, 20 Islamic windows and 162 Islamic rural banks contributed to Islamic banking growth in Indonesia, with total assets worth Rp575.85 trillion.

Islamic banking assets grew 14.32% (yoy) last year supported by solid disbursed financing and deposit growth recorded at 8.68% (yoy) and 15.58% (yoy) to reach Rp384.65 trillion and Rp460.51 trillion respectively in September 2020.



*“On the flipside of the strategic issues currently facing Islamic banks, such as sharia compliance and low competitiveness, there are growing opportunities for Islamic banking development, supported by vast growing halal industry and rapid technological advancement.”*

## **Strategic Issues, Opportunities and Challenges**

Based on surveys, in-depth interviews (IDI) and focus group discussions (FGD) performed by OJK, Islamic banking faces several strategic issues impeding growth, including a lack of business model differentiation, a singular focus on business objectives, suboptimal HR quality and information technology, as well as low financial inclusion and literacy.

On the other hand, OJK has also identified several opportunities and challenges concerning Islamic banking development moving forward, with supporting factors such as rapid technological advancement and digitalisation, halal industry growth and greater religious awareness in Indonesia.

# Core Principles of Islamic Banking

## Philosophy of Islamic Banking

Islamic banking emerged to meet demand for Islamic financial services, while avoiding *haram* practices, such as *riba*, *maysir* and *gharar*.

Islamic banking also emerged in response to public demand for economic and financial activity in line with Islamic teachings and principles. As the philosophical underpinnings of Islamic banking, the overarching

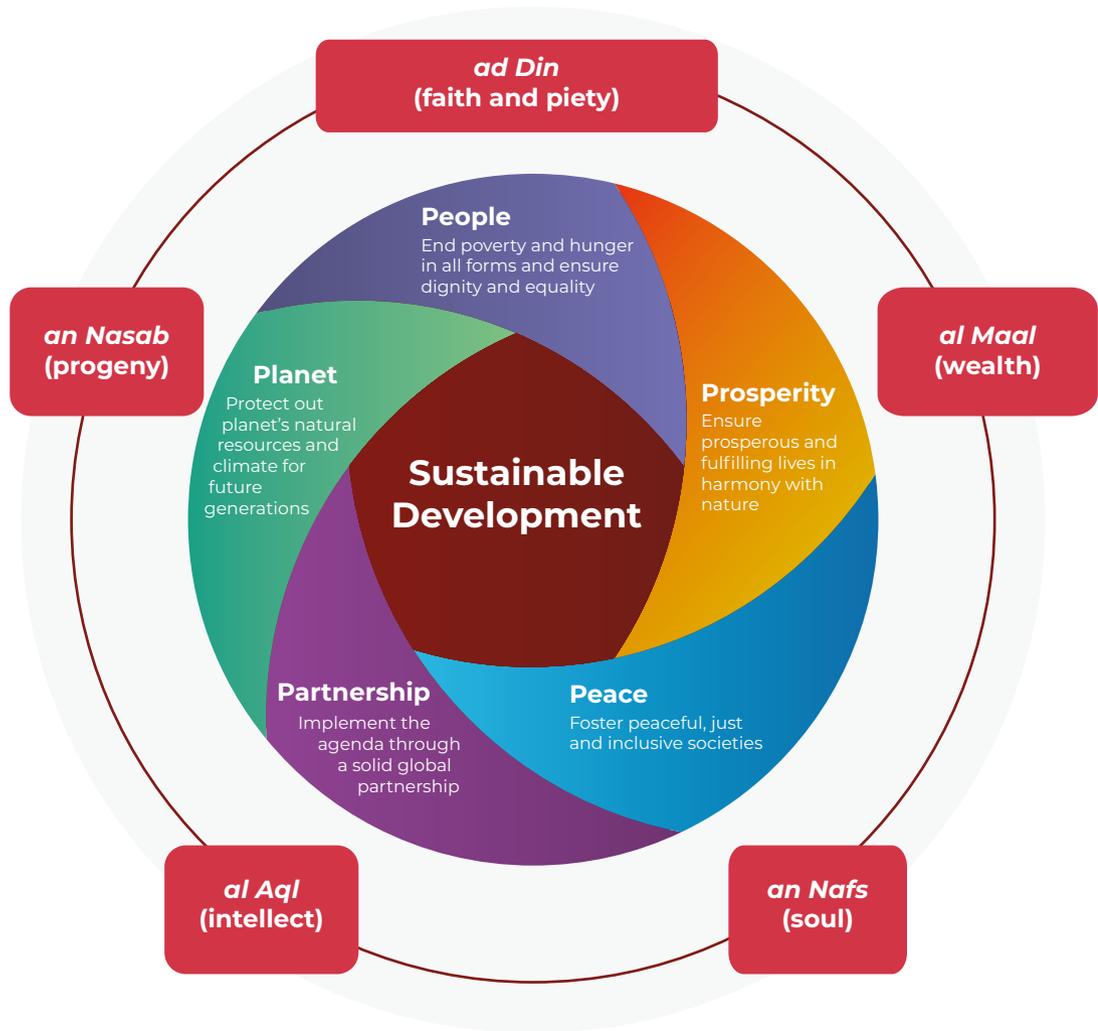
objective of the Islamic economy is *Falāḥ*, namely spiritual and material salvation in terms of socio-economic aspects and *maṣlaḥa*. The vision of prosperity under the Islamic economy embraces *maqāṣid al-sharīʿa* (objectives of sharia), with its objective to protect faith and piety (*ad Din*), progeny (*an Nasab*), soul (*an Nafs*), wealth (*al Maal*) and intellect (*al Aql*).

## Harmony between Islamic Banking and Sustainable Development Goals

The Sustainable Development Goals (SDGs) are a global action plan agreed by the United Nations to end poverty in all its forms everywhere, reduce inequalities and protect the environment, amongst others. The global action began in 2015 as part of the 2030 Agenda for Sustainable Development. There are 17 SDGs with a focus on 5Ps, namely People, Planet, Prosperity, Peace and Partnerships. Long before the SDGs and 5Ps, however, such values permeated all activities under the principles of Islamic

banking, as reflected in the five essentials of *maqāṣid al-sharīʿa* (objectives of sharia), which closely align with the SDGs and 5Ps.

The evolution of socio-economic values has been accompanied by a shift in business community orientation, from setting aside profit for Corporate Social Responsibility (CSR) towards Creating Shared Value (CSV) as a business strategy that emphasises the importance of socio-economic development in the corporate strategic plans.



Source: United Nations (processed)

# Islamic Banking Transformation



Islamic banking must transform into a competitive industry with a tangible socio-economic contribution. Islamic banking in Indonesia is expected to become the foremost banking sector in terms of contributing to the Sustainable Development Goals (SDGs), while applying the principles of Creating Shared Value (CSV) as the fundamental essence of *maqāsid al-sharīa* (objectives of sharia) within the Islamic economy.

Competitive Advantage

## National Banking



BEYOND BANKING



## New Identity of Islamic Banking

- Unique and competitive business models/products
- Optimized Islamic economic and financial ecosystem
- Integrated commercial and social finance
- High quality human resources
- Sophisticated information technology

### Current Conditions:

- Lack of business model/product differentiation
- Low financial literacy and inclusion indexes
- Singular focus on business objectives
- Suboptimal HR quantity and quality
- Inadequate information technology





# ISLAMIC BANKING DEVELOPMENT ROADMAP

# VISION

Creating a resilient and competitive Islamic banking industry that provides a significant contribution to the national economy and social development



**01**

STRENGTHENING  
ISLAMIC BANKING  
IDENTITY



**02**

ENCOURAGING SYNERGY  
WITHIN ISLAMIC ECONOMIC  
ECOSYSTEM



**03**

STRENGTHENING  
LICENSING, REGULATION  
AND SUPERVISION



## STRENGTHENING ISLAMIC BANKING IDENTITY



## ENCOURAGING SYNERGY WITHIN ISLAMIC ECONOMY ECOSYSTEM



## STRENGTHENING LICENSING, REGULATION AND SUPERVISION

01

STRENGTHENING **SHARIA VALUES** IMPLEMENTATION

02

DEVELOPING **UNIQUE AND COMPETITIVE** SHARIA-COMPLIANT PRODUCTS

03

STRENGTHENING **CAPITAL AND EFFICIENCY**

04

ACCELERATING ISLAMIC BANKING **DIGITALISATION**



ENABLER

01

SYNERGY WITH **HALAL INDUSTRY**

02

SYNERGY AMONGST **ISLAMIC FINANCIAL INSTITUTIONS**

03

SYNERGY WITH **ISLAMIC SOCIAL FINANCE INSTITUTIONS**

04

SYNERGY WITH **GOVERNMENT MINISTRIES AND AGENCIES**

05

INCREASING **PUBLIC AWARENESS** WITHIN THE ISLAMIC ECONOMIC ECOSYSTEM FRAMEWORK

LEADERSHIP AND CHANGE MANAGEMENT

HR QUALITY AND QUANTITY

INFORMATION TECHNOLOGY INFRASTRUCTURE

SECTORAL/ INTERDEPARTMENTAL COLLABORATION AND COOPERATION

01

ACCELERATING **THE LICENSING PROCESS** THROUGH TECHNOLOGY ADOPTION

02

DEVELOPING **CREDIBLE AND ADAPTIVE REGULATIONS**

03

ENHANCING **SUPERVISORY EFFECTIVENESS**

01

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# STRENGTHENING ISLAMIC BANKING IDENTITY



## STRENGTHENING ISLAMIC BANKING IDENTITY

- 01 STRENGTHENING **SHARIA VALUES** IMPLEMENTATION
- 02 DEVELOPING **UNIQUE AND COMPETITIVE** SHARIA-COMPLIANT PRODUCTS
- 03 STRENGTHENING **CAPITAL AND EFFICIENCY**
- 04 ACCELERATING ISLAMIC BANKING **DIGITALISATION**

1

STRENGTHENING **SHARIA VALUES** IMPLEMENTATION

As the fundamental identity, sharia values permeate all aspects of Islamic banking, from operating activities to human resources. The inclusive implementation of

sharia values creates an image of integrity, professional as well as disciplined Islamic banks in the eyes of the public at a time when religious awareness is growing.

A

ESTABLISHING A CODE OF CONDUCT AND COMPETENCY STANDARDS FOR ISLAMIC BANKERS

B

STRENGTHENING THE COMPLIANCE AND INTERNAL AUDIT FUNCTION

Strengthening sharia values implementation

## Establishing a Code of Conduct and Competency Standards for Islamic Bankers

Beyond the operating activities, sharia values must also be instilled in all human resources as social norms that must be upheld and clearly evident in customer services to ensure customer experience excellence in terms of applying sharia principles in Islamic banking.

One way to instil sharia values in Islamic bankers is to establish a code of

conduct that defines the ethical rules, procedures and guidelines at work. In addition, certification is required to increase the competencies and professionalism of Islamic bankers.

Monitoring and periodic evaluation of the code of ethics and competency standards are prerequisite for effective implementation.

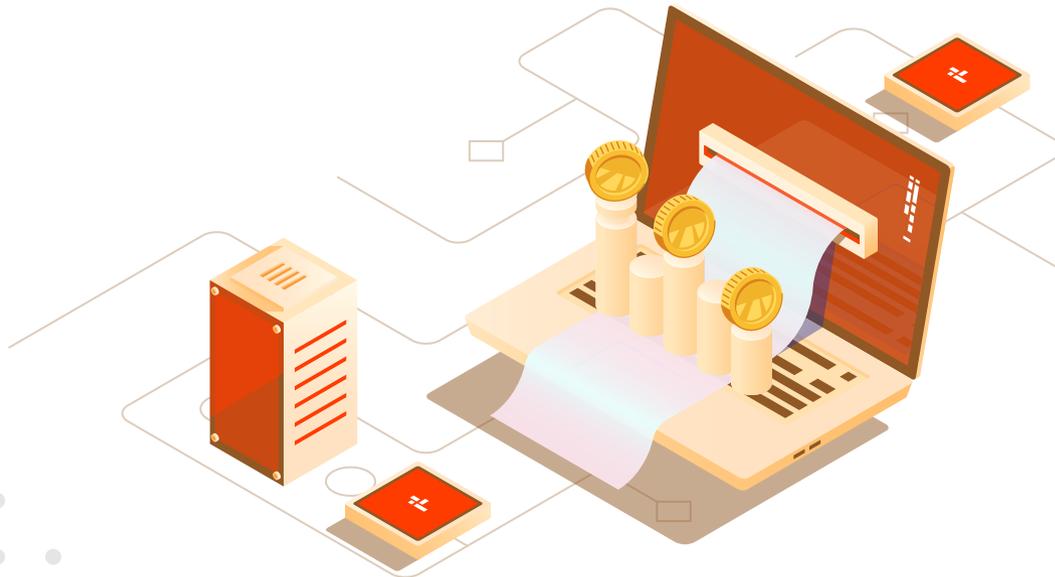


Strengthening sharia values implementation

## Strengthening the Compliance and Internal Audit Function

Not merely the responsibility of the Supervisory Board, sharia principles implementation must also be upheld by all functions of Islamic banking. The compliance and internal audit function are essential elements for optimal supervision of sharia principles. Sharia

non-compliance would not only adversely impact individual banks but also increase the reputational risk of the entire Islamic banking industry. Supervisory policy with a focus on sharia compliance risk would, therefore, help mitigate and contain the reputational risk.



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**DEVELOPING UNIQUE AND COMPETITIVE SHARIA-COMPLIANT PRODUCTS**

OJK encourages the Islamic banking industry to create and develop new sharia-compliant products as a form of business model differentiation from the conventional banking industry. Product uniqueness to Islamic banking is a form of competitive advantage over

the conventional banking industry that must be capitalized on. Industry players and regulators must have a paradigm to develop innovative and creative products that are unique and attract public attention to use the products as their prominent choice.

**A**

**ENCOURAGING PRODUCT DEVELOPMENT THAT CREATES ADDED VALUE FOR THE CUSTOMER**

**B**

**ENCOURAGING PRODUCTS IMPLEMENTATION THAT SUPPORT NATIONAL PRIORITY PROGRAMS**

**C**

**ESTABLISHING A LEGAL BASIS THAT ACCOMMODATES FASTER PRODUCT AND BUSINESS ACTIVITY LICENSING TO INCREASE INNOVATION**

Developing unique and competitive sharia-compliant products

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## Encouraging Product Development that Creates Added Value for the Customer

Competitive advantage can be achieved through Islamic banking products that give added value for the customer, including functional benefits and spiritual benefits through product bundling with social finance, such as *zakat*, *infaq*, *sadaqah* and *waqf* (ZISWAF), as well as

products that fulfil the universal needs of the customer. By developing comprehensive product features oriented towards customer needs and life cycle, Islamic banking would establish itself as the preminent customer choice.

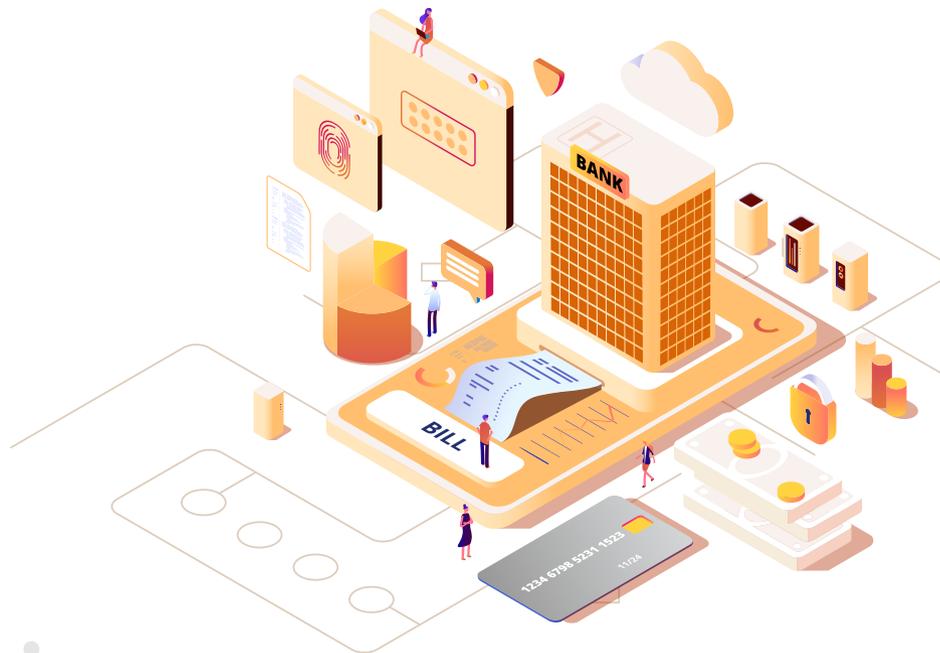


Developing unique and competitive sharia-compliant products

## Encouraging Products Implementation that Support National Priority Programs

Due to its proximity and alignment with the real sector, Islamic banking has a vast potential for national economic contribution. Optimisation and further development of existing products would provide a significant national economic contribution. Furthermore, Islamic banking should optimise its

contribution to government-designated priority sector development through product marketing, including *istishna* financing for public housing or *salam* financing for sectors related to supply chain, such as agriculture, manufacturing, textiles and other relevant sectors.



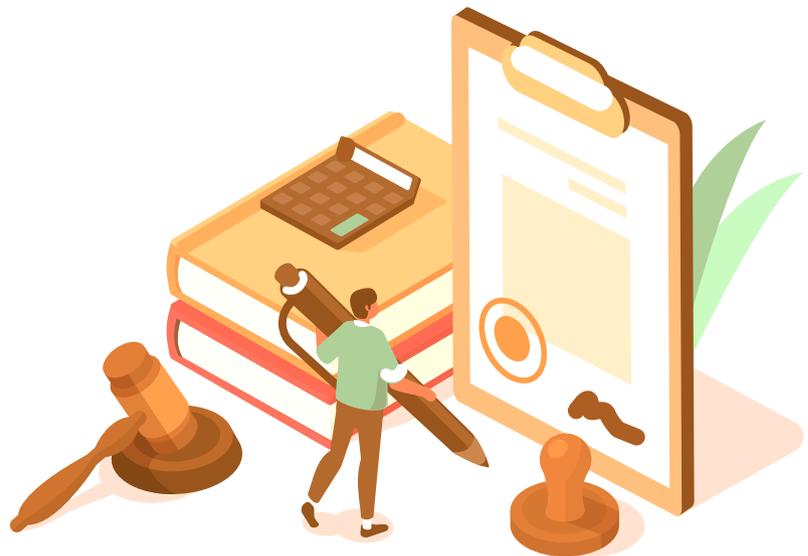
Developing unique and competitive sharia-compliant products

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## Establishing a Legal Basis for Faster Product and Business Activity Licensing to Increase Innovation

Innovation and creativity are vital to achieve Islamic banking differentiation. Industry players are challenged to create unique products that will give added value to the customers while reflecting its uniqueness in accordance with sharia principles. OJK will formulate a regulatory

framework conducive to product innovation and creativity that goes beyond reviewing prospective business models, to also include a piloting review of product licensing that allows new product innovation, while evaluating the licensing process and ensuring product feasibility and sustainability



3

**STRENGTHENING CAPITAL AND EFFICIENCY**

Islamic banking competitiveness could be achieved by strengthening capital to increase their capacity in business development as well as to confront their challenges

and opportunities, such as digital disruption and vast growing halal industry. Stronger operational efficiency will boost competitiveness and creates room for expansion.

**A**

STRENGTHENING CAPITAL ON ISLAMIC BANKS/ISLAMIC WINDOWS THROUGH CONSOLIDATION, ADDITIONAL CAPITAL FROM PARENT BANK OR SUBSIDIARY DEVELOPMENT PLANNING

**B**

STRENGTHENING CAPITAL AND INSTITUTIONAL ARRANGEMENTS ON ISLAMIC RURAL BANKS

**C**

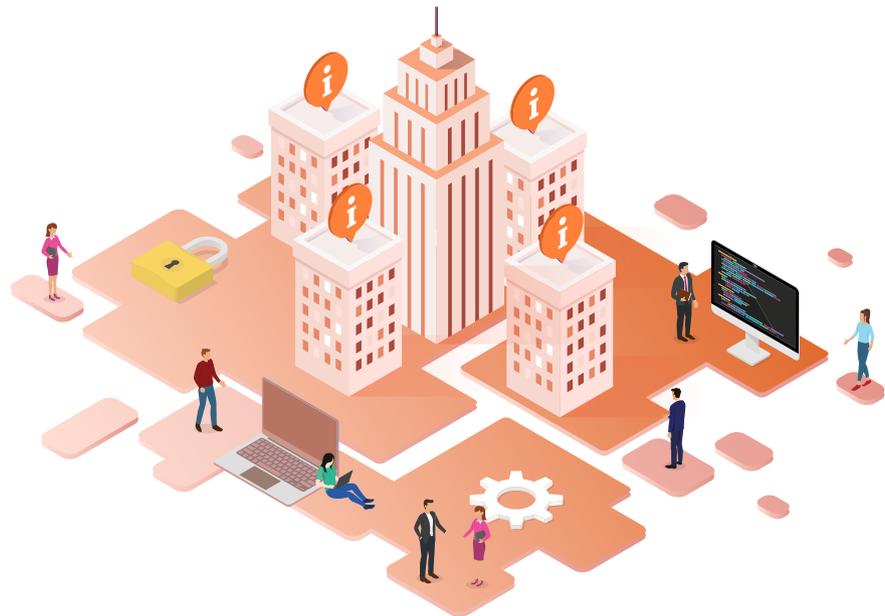
INCREASING ISLAMIC BANKING EFFICIENCY THROUGH BANKING SYNERGY REGULATIONS AND APEX/SETTLEMENT BANKS FOR ISLAMIC RURAL BANKS

## Strengthening Capital and Efficiency

### **Strengthening Capital on Islamic Banks/Islamic Windows through Consolidation, Additional Capital from Parent Bank or Subsidiary Development Planning**

Capital can be strengthened through consolidation to increase minimum core capital at Islamic banks. Investing capital to increase working capital in Islamic windows would strengthen financing capacity and maintain prudential principles. OJK is also encouraging share increase

of Islamic banks/Islamic windows against the parent bank by evaluating the parent bank's commitment for Islamic banking development. Revitalising regulations concerning Islamic banks/Islamic windows will ensure firm commitment towards Islamic banking industry development.



Strengthening Capital and Efficiency

## Strengthening Capital and Institutional Arrangements on Islamic Rural Banks

OJK has issued regulations aimed at strengthening capital through mandatory minimum core capital requirements to create a level playing field and bridge the gap between Islamic rural banks in terms of business scale. A stronger capital base is expected to increase capacity at Islamic rural

banks in terms of their contribution to regional economic development. Meanwhile, OJK will also review the institutional arrangements of Islamic rural banks to create a more competitive industry, while maintaining sharia and prudential principles.



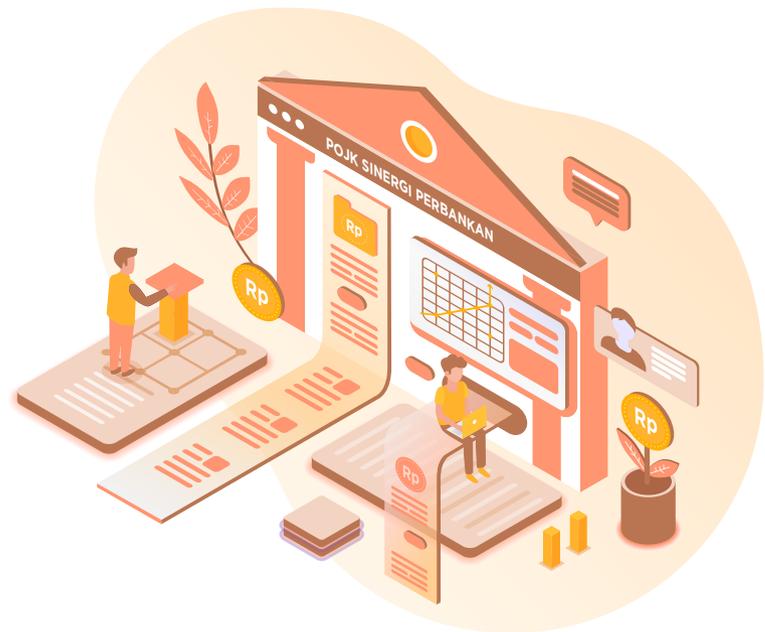
## Strengthening Capital and Efficiency

### **Increasing Islamic Banking Efficiency through Banking Synergy Regulations and APEX/Settlement Banks for Islamic Rural Banks**

As concrete support for banking synergy and ecosystem interconnectivity, OJK issued banking synergy regulations to maintain the competitiveness of Islamic banking products and services against the conventional banking industry. The implementation of banking synergy which will allow Islamic banks to utilise the infrastructure of conventional banks under sole ownership, will

enhance customer services and expand access, while increasing the quality of products and services as well as improving operational efficiency.

Islamic rural banks are expected to improve efficiency and liquidity management through APEX banks in conjunction with Islamic banks/Islamic windows, which also serve as a settlement function to assist with payments transactions.



4

ACCELERATING ISLAMIC BANKING **DIGITALISATION**

Rapid technological advancement and a borderless world demand commensurate Islamic banking infrastructure to ensure faster, better and more convenient customer

services. Product and services digitalisation to support operational activities will add value for the customers when interacting with Islamic banks.

A

ENCOURAGING IT INFRASTRUCTURE PREPARATION TO SUPPORT ISLAMIC BANKING DIGITALISATION THROUGH IMPLEMENTATION OF OJK REGULATION CONCERNING BANKING SYNERGY

B

PREPARING SUPPORTING POLICIES FOR ISLAMIC BANKING DIGITALISATION TO UTILISE THE LATEST TECHNOLOGIES

C

ENCOURAGING A COMMON PLATFORM IMPLEMENTATION TO SUPPORT DIGITALISATION OF ISLAMIC RURAL BANKS

D

ENCOURAGING FUNDING AND FINANCING MODULES DEVELOPMENT BASED ON SHARIA CONTRACTS CHARACTERISTICS

Accelerating Islamic Banking Digitalisation

## Encouraging IT Infrastructure Preparation to Support Islamic Banking Digitalisation Through Implementation of OJK Regulation Concerning Banking Synergy

A salient issue affecting Islamic banking information technology is the lack of digitalisation for Islamic banking services compared with parent banks, stemming from lower supporting IT infrastructure capacity and leading to suboptimal digital services. Supported by the OJK regulation on

banking synergy, Islamic banks are expected to leverage the infrastructure available from the corresponding parent bank by performing gap analysis of the existing digital banking services and compiling an action plan for the services to be developed.



Accelerating Islamic Banking Digitalisation

**Preparing Supporting Policies for Islamic Banking Digitalisation to Utilise the Latest Technologies**

Islamic banks are expected to increase inclusion through the digitalisation of services. Public access to Islamic banks can be increased by providing online account opening facilities via customer online onboarding and e-forms. In addition, digitalisation also facilitates customer transactions

anywhere and anytime through Application Programming Interface and Quick Response Code Indonesia Standard (QRIS) technologies, thus requiring supporting policies to accelerate digitalisation in order to maintain competitiveness in the post-pandemic new normal era.



Accelerating Islamic Banking Digitalisation

## Encouraging a Common Platform Implementation to Support Digitalisation of Islamic Rural Banks

Islamic banking industry is affected by technological advancement, not only limited to larger banks but also including rural banks. This could possibly lead to cost constraints, especially at smaller Islamic rural

banks, thereby necessitating an alternative strategy via use of a common platform for Islamic rural banks to share IT infrastructure and support digitalisation, thus reducing the cost burden.



Accelerating Islamic Banking Digitalisation

## Encouraging Funding and Financing Modules Development Based on Sharia Contracts Characteristics

The different characteristics of financial products based on sharia contracts versus conventional banking products imply different funding and financing modules in terms of the operational processes, such as calculating margins, profit sharing and other modules specific to Islamic banking. Through discussions between Islamic banks and IT service providers, OJK encourages Islamic banks to develop funding and financing modules specific to the

characteristics of sharia contracts to ensure the operational procedures, such as recording, calculating and reporting, are in line with sharia principles.

With the dominance of millennials in the digitalisation era, creative new ideas are required, which must be captured by Islamic banks through hackathon-type competitions and business matching with technology-based start-ups.



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01

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# STRENGTHENING ISLAMIC BANKING IDENTITY

# Output 2025

- 1 Code of conduct for Islamic bankers
- 2 Formation of Sharia Compliance Communication Forum
- 3 Products with social and spiritual benefits
- 4 Establishment of BUKU 4 Islamic bank
- 5 Supporting policies for digital banking

# STRENGTHENING ISLAMIC BANKING IDENTITY

## STRATEGIC INITIATIVES

## ACTION PLAN

### Strengthening Sharia Values Implementation

Establishing a code of conduct and competency standards for Islamic bankers

Strengthening the compliance and internal audit function

### Developing Unique and Competitive Sharia-Compliant Products

Encouraging product development that creates added value for the customer

Encouraging products implementation that support national priority programs

Establishing a legal basis that accommodates faster product and business activity licensing to increase innovation

### Strengthening Capital and Efficiency

Strengthening capital on Islamic banks/Islamic windows through consolidation, additional capital from parent bank or subsidiary development planning

Strengthening capital and institutional arrangements on Islamic rural banks

Increasing Islamic banking efficiency through banking synergy regulations and apex/settlement banks for Islamic rural banks

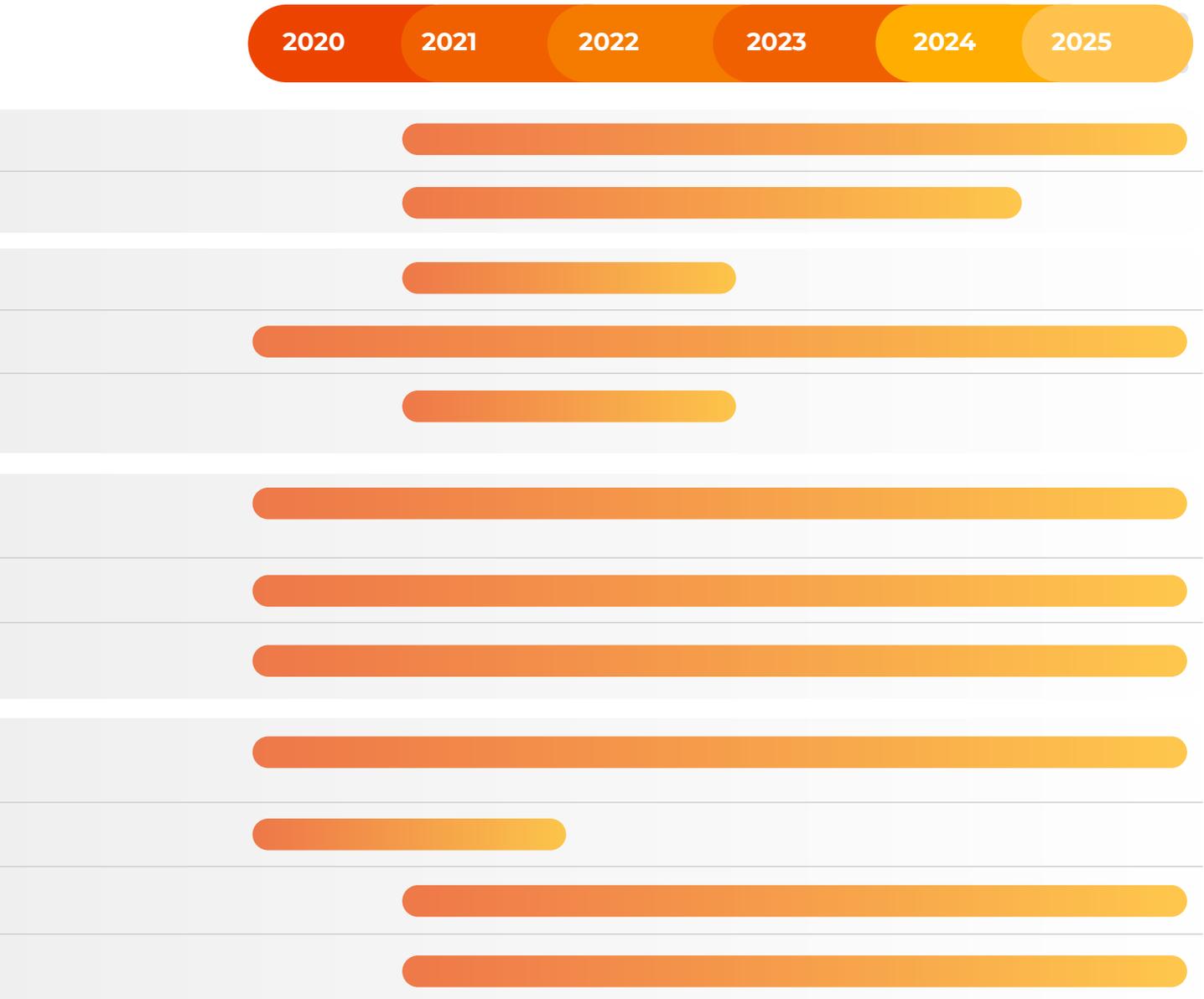
### Accelerating Islamic Banking Digitalisation

Encouraging IT infrastructure preparation to support Islamic banking digitalisation through implementation of OJK regulation concerning implementation on banking synergy

Preparing supporting policies for Islamic banking digitalisation to utilise the latest technologies

Encouraging a common platform implementation to support digitalisation of Islamic rural banks

Encouraging funding and financing modules development based on sharia contracts characteristics



02

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# ENCOURAGING SYNERGY WITHIN ISLAMIC ECONOMY ECOSYSTEM

AIU	HJI	WWE	PLD	EER	QRT	OMJ
1,822 (-35)	20,369 (+580)	890 (-20)	6,350 (-200)	10,985 (+580)	665 (-15)	6,800 (-115)
MBC	LJH	MJB	PON	NFR	UGH	OMJ
1,405 (-10)	9,542 (-128)	2,609 (+35)	7,654 (+169)	6,522 (+122)	1,632 (-54)	3,452 (+182)
WFF	HJM	QLC	LSD	SDH	GHS	
3,320 (+120)	712 (+12)	134 (+5)	2,022 (-18)	631 (+40)	6,287 (-57)	12,630 (+330)



## ENCOURAGING SYNERGY WITHIN ISLAMIC ECONOMY ECOSYSTEM

- 01 SYNERGY WITH **HALAL INDUSTRY**
- 02 SYNERGY AMONGST **ISLAMIC FINANCIAL INSTITUTIONS**
- 03 SYNERGY WITH **ISLAMIC SOCIAL FINANCE INSTITUTIONS**
- 04 SYNERGY WITH **GOVERNMENT MINISTRIES AND AGENCIES**
- 05 INCREASING **PUBLIC AWARENESS** WITHIN THE ISLAMIC ECONOMIC ECOSYSTEM FRAMEWORK

# Islamic Economy Ecosystem

The halal industry, Islamic financial services, Islamic social finance and the religious sector are the four main constituent sectors of the Islamic economy ecosystem.

This ecosystem is a network facilitating those four sectors by connecting economic activity with financial transactions within the ecosystem. Synergy and integration within the ecosystem are critical to ensure all financial activities utilise Islamic financial services.

Islamic banks are required to provide highly competitive Islamic financial products and services that meet the

specific needs of the ecosystem. Therefore, OJK issued **OJK Regulation (POJK) No. 28/POJK.03/2019 concerning Banking Synergy under Sole Ownership for Islamic Banking Development**, which allows Islamic banks to improve product and service quality via platform sharing, where Islamic banks can cooperate in synergy with other banks under sole ownership to provide various supports, including human resources, information technology, office network and other infrastructure.





Conventional financial institution as parent company

1

## SYNERGY WITH HALAL INDUSTRY

Halal industry development is accelerating globally and nationally. Several international publications have highlighted the advanced development of halal sectors in Indonesia, with the Government paying more attention to

the halal industry, encompassing the Islamic economy and finance. To that end, Islamic banking must capitalise such momentum and contribute optimally to halal industry development in Indonesia.

A

PROMOTING THE ROLE OF ISLAMIC BANKING IN HALAL INDUSTRY FINANCIAL TRANSACTIONS

B

ENCOURAGING THE CONTRIBUTION OF ISLAMIC BANKING IN THE HAJJ/UMRAH VALUE CHAIN

C

PROPOSING ISLAMIC BANKING FOR SME FINANCING IN LINE WITH HALAL INDUSTRY

D

ENCOURAGING TRANSACTIONS USING ISLAMIC BANKING PRODUCTS AND SERVICES WITHIN A HALAL MARKETPLACE

Synergy with halal industry

## Promoting the Role of Islamic Banking in Halal Industry Financial Transactions

Infrastructure development in halal industry is a priority project in the Medium-Term National Development Plan (RPJMN) 2020-2024, with the number of industrial zones facilitated as one indicator. Halal industrial zones facilitate economic activity and financial transactions. Islamic banks, with business activity based on

sharia principles, should contribute more to financial transactions in the halal industry, thus requiring coordination with relevant industries and authorities to ensure all elements involved with transactions in the halal industry use Islamic banking products and services.



Synergy with halal industry

## Encouraging the Contribution of Islamic Banking in the Hajj/Umrah Value Chain

Indonesia sends the largest contingent of hajj pilgrims each year, totalling approximately 220,000. In terms of Umrah, Indonesia sends approximately 1.3 million pilgrims each year. Such exceptional figures demonstrate potential opportunities for Islamic banking to facilitate

financial transactions relating to hajj and umrah activities, starting with business model development in accordance with the needs of hajj and umrah travel services providers through business matching between Islamic banks and travel associations.



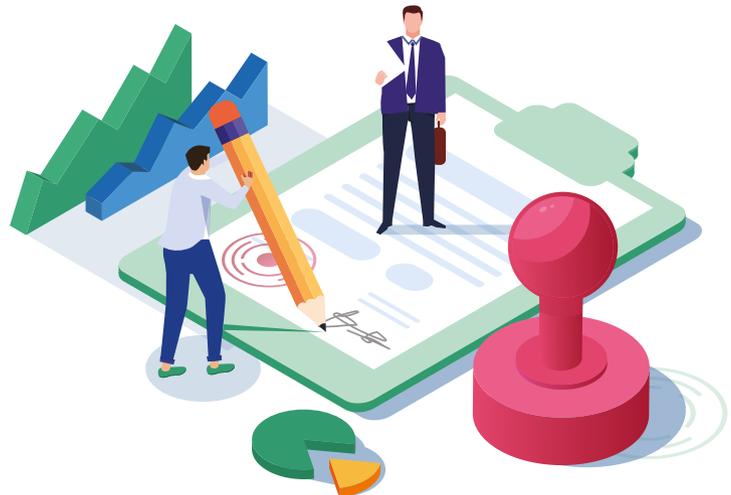
Synergy with halal industry

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## Proposing Islamic Banking for SME Financing in line with Halal Industry

Small and medium enterprises (SMEs) dominate the business landscape of Indonesia, with most operating in the halal industry. Exceeding 50 million units, SMEs are a substantial target market for financing disbursed by Islamic banks, including sharia-compliant SME financing (*Kredit Usaha Rakyat/KUR*), which would boost the contribution of Islamic banking to SME

development in line with halal industry development. Therefore, several supporting financing schemes must be developed, including sharia-compliant SME financing/KUR, to assist SMEs by providing innovative business models that demonstrate the uniqueness of Islamic banking in line with public needs.



Synergy with halal industry

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## Encouraging Transactions using Islamic Banking Products and Services within a Halal Marketplace

Rapid technological development has caused a paradigm shift in public lifestyle, particularly in terms of consumption habits, as confirmed by the emergence of marketplaces as platforms serving the various needs of the public. Consequently, the existence of conventional brick-and-mortar businesses that only sell products face-to-face has

declined in favour of digital marketplaces, including halal marketplaces. Islamic banks must capitalise this momentum to provide appropriate financial services, requiring socialisation efforts to raise awareness amongst halal marketplace players concerning the benefits of using Islamic banking products and services as transactional media.



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2

**SYNERGY AMONGST ISLAMIC FINANCIAL INSTITUTIONS**

Islamic banks are unable to develop Islamic finance in Indonesia unaided, thus requiring synergy with the Islamic capital market, Islamic non-bank financial institutions and FinTech.

This synergy will expands access to Islamic banking services, while ensuring the active participation of Islamic banks in the activities of other Islamic financial institutions.

**A**

**PROMOTING THE USE OF ISLAMIC BANKING SERVICES THROUGH SYNERGY WITH OTHER ISLAMIC FINANCIAL INSTITUTIONS**

**B**

**ENCOURAGING ACTIVE PARTICIPATION OF ISLAMIC BANKS IN ISLAMIC CAPITAL MARKET ACTIVITIES**

Synergy amongst Islamic financial institutions

## Promoting the Use of Islamic Banking Services Through Synergy with Other Islamic Financial Institutions

Rapid information technology development presents an opportunity to expand access to Islamic banking services in synergy with other Islamic financial institutions. Therefore, Islamic non-bank financial services institutions are encouraged to utilise Islamic banking services for operational and investment purposes. As a newly-established non-bank financial services

institution, Islamic FinTech offers collaborative opportunities for Islamic banking through peer-to-peer lending by providing lender account services. Meanwhile, other collaborative effort to serve an unbankable segment could also be implemented such as cooperating with micro waqf banks to open their customer accounts.



Synergy amongst Islamic financial institutions

## Encouraging Active Participation of Islamic Banks in Islamic Capital Market Activities

Currently, Islamic capital market assets already exceeds half of total assets of the national Islamic bank industry, demonstrating that Islamic capital market products are beginning to dominate Islamic financial markets. As an intermediary institution, Islamic capital market development involves the participation of Islamic

banks. Such synergy allows Islamic banks to engage in products and activities based on its core capital classification (*Bank Umum Kegiatan Usaha/BUKU*) of the parent bank, thus facilitating active participation in Islamic capital market activity as custodian banks and placement banks for corporate sukuk issuances.



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3

SYNERGY WITH **ISLAMIC SOCIAL FINANCE INSTITUTIONS**

Based on the World Giving Index 2019 published by Charities Aid Foundation, Indonesia placed 10th globally in terms of the highest scoring countries of the world's most generous country. This represents a great opportunity for Islamic banking to play a deeper role in social

development in Indonesia by optimising the social function while paying attention to the commercial side. *Zakat, infaq, sadaqah* and *waqf* (ZISWAF) management is one area where the role of Islamic banking could be optimised.

A

PROMOTING ZISWAF FUNDS OPTIMISATION WHILE INCREASING INTEGRATION OF SOCIAL FUNCTION IN ISLAMIC BANK

B

ENCOURAGING THE USE OF ISLAMIC BANK ACCOUNTS AT ISLAMIC SOCIAL FINANCE INSTITUTIONS

Synergy with islamic social finance institutions

## Promoting ZISWAF Funds Optimisation while Increasing Integration with Social Function in Islamic Bank

Innovative Islamic social finance (ISF) is evolving in terms of disbursement and management, providing an opportunity for Islamic banks to increase engagement, which requires cooperation with *Amil Zakat* Institutions and *nadzir* (*waqf* fund managers) to integrate

ZISWAF fund management and distribution into Islamic banking business models and products. Integration of the commercial and social functions will reinforce a strong identity of Islamic banking in terms of their role in national socio-economic development.

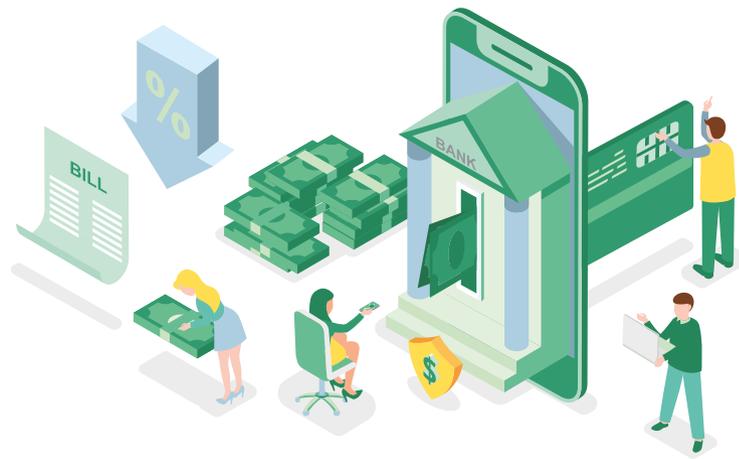


Synergy with islamic social finance institutions

## Encouraging the Use of Islamic Bank Accounts at Islamic Social Finance Institutions

Social generosity in Indonesia influences the number of local social financial institutions. Based on data published by the National *Amil Zakat* Board (Baznas), more than 60 *Amil Zakat* Institutions are registered in Indonesia, excluding other unregistered institutions such as donation-based crowdfunding platforms. Not all such institutions, however, use accounts at

Islamic banks to deposit funds. Consequently, coordination between BAZNAS and the Indonesia *Waqf* Board (BWI) is required to assess the corresponding issues and constraints, while improving public socialisation activities to raise awareness concerning the use of Islamic banks' accounts for social finance transactions.



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4

SYNERGY WITH **GOVERNMENT MINISTRIES AND AGENCIES**

Islamic banking development within the Islamic economy ecosystem requires synergy amongst government ministries and agencies to ensure the participation of Islamic banks in all strategic work programs and other

financial activities. The collaboration between government ministries/agencies and Islamic banking would expand the role of Islamic banking in national economic development and financial inclusion.

A

ENCOURAGING ISLAMIC BANKS' PARTICIPATION IN HOUSING FINANCING PROGRAMS

B

OPTIMISING ISLAMIC BANKING ROLE TO SUPPORT GOVERNMENT PROGRAMS AND FINANCIAL ACTIVITIES IN STATE-OWNED ENTERPRISES

C

OPTIMISING THE USE OF ISLAMIC BANKING AT ALL ISLAMIC EDUCATIONAL INSTITUTIONS

D

COOPERATING WITH ISLAMIC CIVIL SOCIETY ORGANISATIONS

Synergy with government ministries and agencies

## Encouraging Islamic Banks' Participation in Housing Financing Programs

Housing development is a key agenda of the Ministry of Public Works and Housing contained in the Medium-Term National Development Plan (RPJMN) 2020-2024, funded by the government and banking industry. Nevertheless, Islamic banking only accounts for less than 20% of housing development

financing, representing a challenge and an opportunity for the industry, which requires coordination with the Ministry of Public Works and Housing to increase the share of Islamic banking financing in the housing development program.



Synergy with government ministries and agencies

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## Optimising Islamic Banking Role to Support Government Programs and Financial Activities in State-Owned Enterprises

All activities conducted by the government and state-owned enterprises require banking products and services. Therefore, Islamic banking must increase its presence in such activities. One example is in terms of salary disbursements, the number of Islamic banks involved is still limited, which must be increased to expand market share.

As the number of projects implemented by state-owned enterprises and projects funded by government sukuk increase, policy recommendations are required to promote the use of Islamic banking products and services that facilitate the financial transactions associated with such projects.



Synergy with government ministries and agencies

## Optimising the Use of Islamic Banking at All Islamic Educational Institutions

There is an abundance of Islamic educational institutions located in Indonesia. Based on data published by the Ministry of Religious Affairs, there are currently 82,000 madrasa (primary and secondary educational institutions), 796 universities and 229,000 pesantren (Islamic boarding schools) in Indonesia, implying massive opportunity to use Islamic banking products

and services. Therefore, coordination with the Ministry of Religious Affairs is required to optimise the use of Islamic banking products and services across all Islamic educational institutions, including the students and their families, which would have a significant impact on Islamic banking development as well as financial literacy and inclusion.



Synergy with government ministries and agencies

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## Cooperating with Islamic Civil Society Organisations

As the most populous Muslim country, Indonesia is home to diverse Islamic civil society organisations, which rely operationally on financial activities that could be fulfilled by Islamic banking, particularly for the larger organisations, such as Muhammadiyah and Nahdlatul Ulama. To that

end, socialisation activities targeting Islamic civil society organisations concerning the use of Islamic banking products and services to meet their financial needs would expand the market share of Islamic banking in Indonesia.



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5

## INCREASING **PUBLIC AWARENESS** WITHIN THE ISLAMIC ECONOMIC ECOSYSTEM FRAMEWORK

Public awareness of Islamic banking is prerequisite to expanding the customer base and building public understanding. Furthermore, the financial inclusion and literacy strategy will not be optimal

if segmented by each sector, thus requiring the engagement of all Islamic economy and financial ecosystem stakeholders to maximise the impact on financial literacy.

A

CONDUCTING JOINT EDUCATIONAL CAMPAIGN IN THE ISLAMIC ECONOMY AND FINANCIAL ECOSYSTEM

B

RAISING PUBLIC AWARENESS OF THE IB BRAND

C

EXPANDING THE ROLE OF RELIGIOUS LEADERS IN CAMPAIGNING FOR ISLAMIC BANKING

D

SUPPORTING IMPLEMENTABLE RESEARCH DEVELOPMENT

Increasing public awareness within the Islamic economic ecosystem framework

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## Conducting Joint Educational Campaign in the Islamic Economy and Financial Ecosystem

The Islamic economy ecosystem must be exploited to increase public literacy on Islamic banking through literacy campaigns in the form of national and international events/expos in conjunction with relevant stakeholders. Stakeholders cooperation could also

produce edutainment (audio-visual) content concerning Islamic economy and financial literacy, which can be utilized by all stakeholders in the ecosystem, to increase national financial literacy through social media across the board.



Increasing public awareness within the Islamic economic ecosystem framework

## Raising Public Awareness of the iB Brand

iB (Islamic banking) branding was introduced in 2007 as an identifier of institutions/branch offices offering Islamic banking services which is expected to raise public awareness of Islamic banking services. After more than 10 years in effect as brand identity, OJK in conjunction with the

Islamic banking industry will assess the effectiveness of iB branding in raising public awareness of Islamic banking. Furthermore, the assessment is also expected to provide follow-up actions for an optimal, all-encompassing branding campaign.



Increasing public awareness within the Islamic economic ecosystem framework

## Expanding the Role of Religious Leaders in Campaigning for Islamic Banking

Religious leaders are essential in terms of raising public understanding and awareness concerning Islamic financial transactions. Through training and Friday sermons (*khutbah*) in conjunction with the Indonesia Mosque Council (DMI), religious leaders can

discuss the importance of Islamic financial transactions in their Friday sermons. Religious leaders who have a massive congregation base are also an important factor in educating the public on the importance of using Islamic banking in their daily lives.



Increasing public awareness within the Islamic economic ecosystem framework

## Supporting Implementable Research Development

The Islamic banking development strategy must be underpinned by implementable research/studies with a focus on unique business models that meet market needs, thus contributing to quality economic

growth. Cooperation with universities should be pursued to conduct applicable research with a significant contribution to Islamic banking industry development.



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02

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# ENCOURAGING SYNERGY WITHIN ISLAMIC ECONOMY ECOSYSTEM

# Output 2025

- 1 Increasing financing/funding exposure in the halal industry
- 2 Increasing the number of Islamic banks as transactional media for halal marketplaces
- 3 Increasing the number of Islamic banks as custodian banks
- 4 Increasing financing/funding exposure in government programs and projects
- 5 Reviewing business models that integrate the commercial and social finance functions in Islamic banks

## ENCOURAGING SYNERGY WITHIN ISLAMIC ECONOMIC ECOSYSTEM

### STRATEGIC INITIATIVES

### ACTION PLAN

#### Synergy with Halal Industry

Promoting the role of Islamic banking in halal industry financial transactions

Encouraging the contribution of Islamic banking in the hajj/umrah value chain

Proposing Islamic banking for SME financing in line with halal industry

Encouraging transactions using Islamic banking products and services within a halal marketplace

#### Synergy amongst Islamic Financial Institutions

Promoting the use of Islamic banking services through synergy with other Islamic financial institutions

Encouraging active participation of Islamic banks in Islamic capital market activities

#### Synergy with Islamic Social Finance Institutions

Promoting ZISWAF funds optimisation while increasing integration with social function in Islamic bank

Encouraging the use of Islamic bank accounts at Islamic social finance institutions

#### Synergy with Government Ministries and Agencies

Encouraging Islamic banks' participation in housing financing programs

Optimising Islamic banking role to support government programs and financial activities in state-owned enterprises

Optimising the use of Islamic banking at all Islamic educational institutions

Cooperating with Islamic civil society organisations

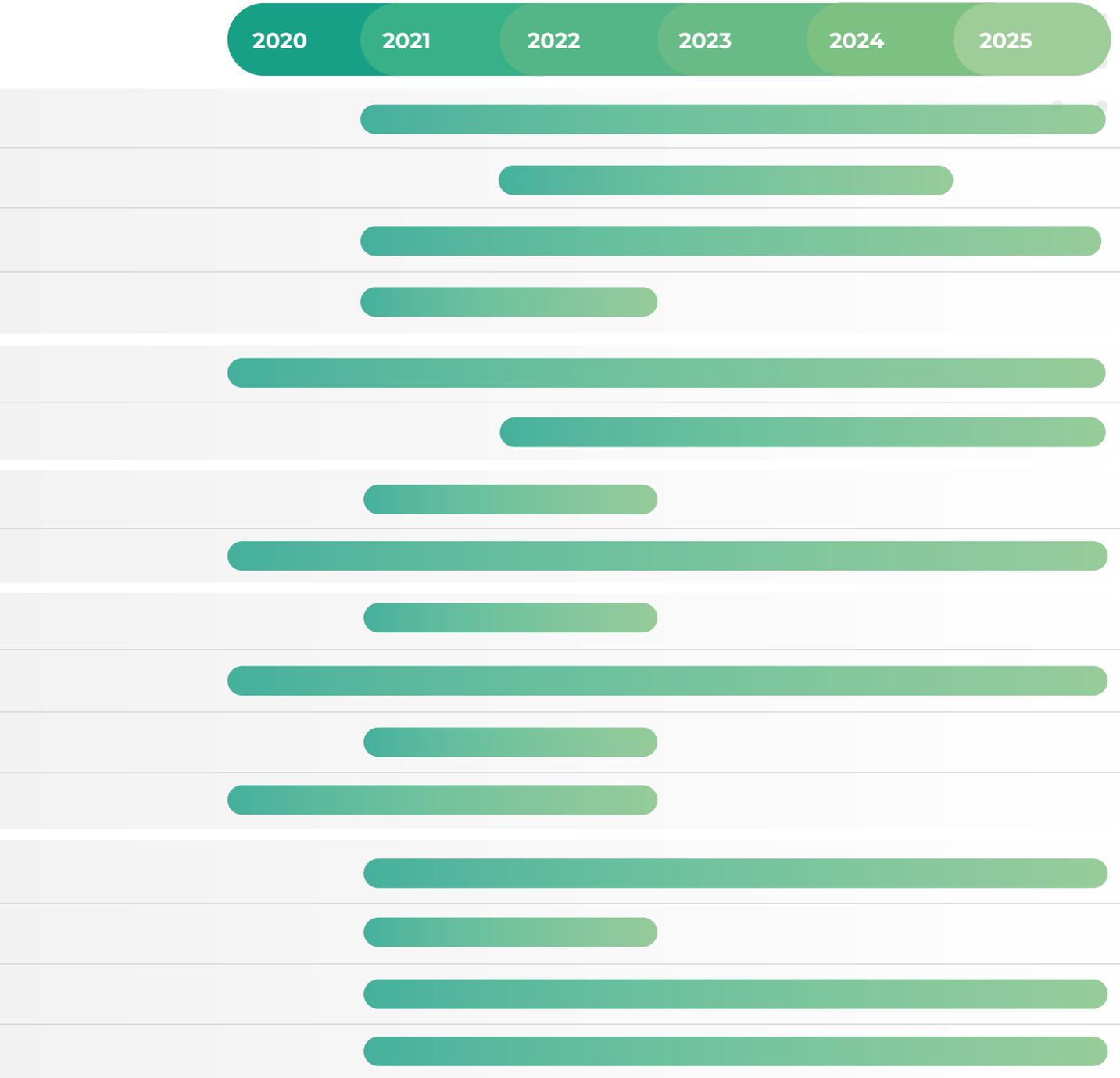
#### Increasing Public Awareness within the Islamic Economic Ecosystem Framework

Conducting joint educational campaign in the Islamic economy and financial ecosystem

Raising public awareness of the iB brand

Expanding the role of religious leaders in campaigning for Islamic banking

Supporting implementable research development



03

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# STRENGTHENING LICENSING, REGULATION AND SUPERVISION



## STRENGTHENING LICENSING, REGULATION AND SUPERVISION

01

ACCELERATING **THE LICENSING PROCESS**  
THROUGH TECHNOLOGY ADOPTION

02

DEVELOPING **CREDIBLE AND ADAPTIVE**  
**REGULATIONS**

03

ENHANCING **SUPERVISORY EFFECTIVENESS**

1

## ACCELERATING THE LICENSING PROCESS THROUGH TECHNOLOGY ADOPTION

Islamic banking transformation towards product differentiation, solid capital and good governance requires various changes in the business processes, organisational management and capital along with intensive business model and

product innovation to provide value-added and uniqueness for the customer. OJK supports such transformation through a faster and more responsive licensing process, while maintaining good institutional governance.

A

DEVELOPING IT TO ACCELERATE THE LICENSING PROCESS

B

EVALUATING THE NEEDS OF ADEQUATE HUMAN RESOURCES IN LICENSING FUNCTION

C

ENHANCING HR CAPACITY OF LICENSING FUNCTION

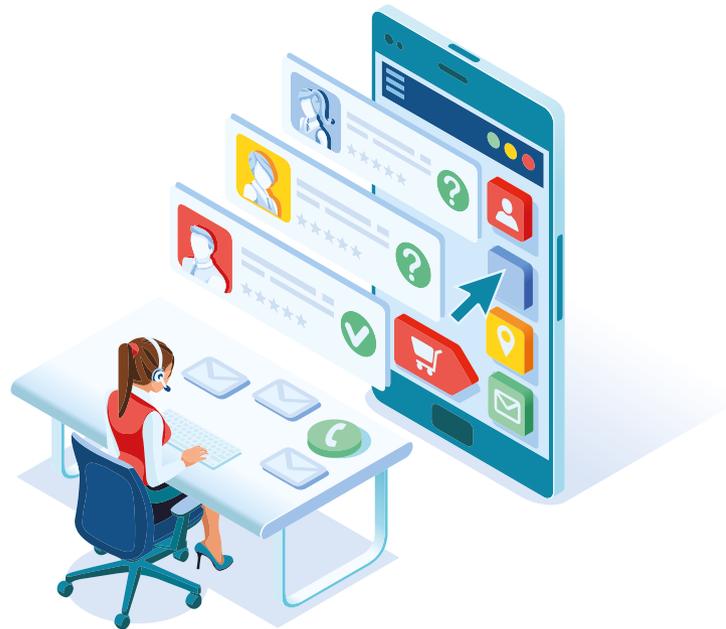
Accelerating the licensing process through technology adoption

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## Developing IT to Accelerate the Licensing Process

Information technology (IT) covers the fundamental tools required to perform all business processes, including licensing process. Licensing process require rigorous evaluation across each process line to ensure a fast output in line with the Service Level Agreement (SLA), while maintaining process quality. Various assessments, such as

Business Process Reengineering, are required to enhance business process efficiency through appropriate and user-friendly IT systems that maintain data confidentiality. OJK will develop an IT-based licensing system to accelerate SLA that is easier to use by OJK and licence applicants.



Accelerating the licensing process through technology adoption

---

## Evaluating the Needs of Adequate Human Resources in Licensing Function

Islamic banking continues to evolve as an impetus for industry players to expand through the establishment of new Islamic banks and Islamic windows as well as conversion of conventional banks to Islamic banks. Furthermore, the process to differentiate business models will require product

innovation by industry players. Such conditions require a dynamic licensing process that follows the industry rhythm, necessitating the appraisal of adequate human resources to serve the licensing process with a good SLA.



Accelerating the licensing process through technology adoption

## Enhancing HR Capacity of Licensing Function

There is growing demand for Islamic banking to increase innovative development of unique products and interact with the real and social sectors within the Islamic economy ecosystem. A fast and dynamic licensing process is required in response to changing economic and technological conditions, involving productive human resources with

adequate capacity. Therefore, OJK is enhancing the capacity of human resources engaged in the Islamic banks' licensing process through ongoing development of best practices to accelerate business innovation and support Islamic economic development based on an efficient licensing process while still maintains good governance.



2

## DEVELOPING CREDIBLE AND ADAPTIVE REGULATIONS

Seeking to accelerate Islamic banking industry growth and provide a significant economic contribution, OJK is responsible for issuing credible and adaptive regulations. Dynamic

technological and business development demands an agile Islamic banking industry underpinned by supporting regulations to maintain stability and resilience amidst potential disruptions.

A

FORMULATING OUTCOME-FOCUSED REGULATIONS BASED ON BANK CHARACTERISTICS AND COMPLEXITY

B

HARMONISING REGULATIONS WITH BEST PRACTICES AND/OR INTERNATIONAL STANDARDS

C

ENHANCING HR CAPACITY OF ISLAMIC BANKING REGULATORS

Developing credible and adaptive regulations

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## Formulating Outcomes-Focused Regulations Based on Bank Characteristics and Complexity

Rapid and dynamic post-pandemic information technology and business development demands an agile and adaptive Islamic banking industry, encompassing innovative products and services, technology adoption and efficient business processes to remain competitive in the market. In support, agile and forward-looking banking regulations are required to anticipate dynamics and disruptions moving forward under a principles-based

framework that can adapt to changes in the banking structure and ecosystem, which will provide industry players a room for innovation, while maintaining stability and prudential principles.

OJK will review all 'extreme' rules-based regulations that are impeding the resolution of current issues using a principles-based approach to formulate outcomes-focused regulations based on bank characteristics and complexity.



Developing credible and adaptive regulations

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## Harmonising Regulations with Best Practices and/or International Standards

Growing total assets of the global Islamic banking industry is capable of causing systemic disruptions, thus requiring standardised regulations on prudential Islamic banking to maintain financial stability. As a member of the Islamic Financial Services Board (IFSB), an

international standard setter for Islamic financial industry, OJK constantly strives to harmonise Islamic banking regulations with prevailing best practices and/or international standards in accordance with the interests of the national banking industry and economy.



Developing credible and adaptive regulations

## Enhancing HR Capacity of Islamic Banking Regulators

Islamic banking is unequivocally entering an industrial era that demands high innovation to emphasise industry uniqueness and contribute significantly to the national economy and Islamic economy ecosystem. Dynamic economic and technological conditions require adaptive and agile regulations formulated by knowledgeable,

high-capacity human resources. Therefore, OJK is constantly enhancing the HR capacity of Islamic banking regulators in line with prevailing best practices and international standards to accelerate business innovation in the Islamic banking industry and support Islamic economic development through credible and adaptive regulation.



3

ENHANCING **SUPERVISORY EFFECTIVENESS**

Technology-based supervision, known as supervisory technology or SupTech, is a key agenda of OJK to strengthen banking supervision. This agenda is also consistent with the development of innovative and complex Islamic

banking products and services that demands a responsive supervisory program to anticipate potential bank disruptions. Therefore, OJK is leveraging the latest information technology to increase supervisory effectiveness.

A

DEVELOPING ISLAMIC BANKING SUPERVISORY TOOLS

B

EVALUATING SUPERVISORY HR AND ORGANISATIONAL NEEDS

C

ENHANCING CAPACITY OF ISLAMIC BANKING SUPERVISORS

Enhancing supervisory effectiveness

## Developing Islamic Banking Supervisory Tools

Digital disruption in the financial world has raised the issue of supervisory technology, or SupTech, to assist the supervision process by increasing effectiveness and efficiency through faster and simpler data analysis underlying a responsive decision-making process. Following developments in the digital era, OJK as the Islamic banking supervisor, applies

SupTech to the supervision process by optimising technology for Islamic banks' data reporting, amongst others. In addition, OJK also utilises integrated data analytics supported by a data warehouse, big data analytics and artificial intelligence to facilitate comprehensive analysis by supervisors.



Enhancing supervisory effectiveness

## Evaluating Supervisory HR and Organisational Needs

A larger and more complex Islamic banking industry requires competent supervisors focused on bank analysis supported by an adequate number of banks' supervisors and comprehensive organisational structure that facilitates effective supervision. Considering the recent changes in the microeconomic and

macroeconomic environment that demand an agile and competitive Islamic banking industry, a further review of sufficient organisational structure for Islamic banks' supervisors is required in preparation for Islamic banking business dynamics moving forward to maintain stability and prudential principles.



Enhancing supervisory effectiveness

## Enhancing Capacity of Islamic Banking Supervisors

Islamic banking is expected to become more innovative when developing unique products and interacting with the real and social sectors within an Islamic economy ecosystem, leading to more diverse and complex business processes that require knowledgeable and competent supervisors.

Therefore, OJK constantly enhances Islamic banking supervisor capacity in line with prevailing best practices and international standards to accelerate business innovation in the Islamic banking industry and support Islamic economic development under an effective supervisory regime.



03

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# STRENGTHENING LICENSING, REGULATION AND SUPERVISION

# Output 2025

- 1 IT systems that support the licensing process
- 2 Holistic and comprehensive regulations through a principles-based approach
- 3 HR capacity building in licensing, regulation and supervision function

# STRENGTHENING LICENSING, REGULATION AND SUPERVISION

## STRATEGIC INITIATIVES

## ACTION PLAN

**Accelerating the Licensing Process** through Technology Adoption

Developing IT to accelerate the licensing process

Evaluating the needs of adequate human resources in licensing function

Enhancing HR capacity of licensing function

**Developing Credible and Adaptive Regulations**

Formulating outcome-focused regulations based on bank characteristics and complexity

Harmonising regulations with best practices and/or international standards

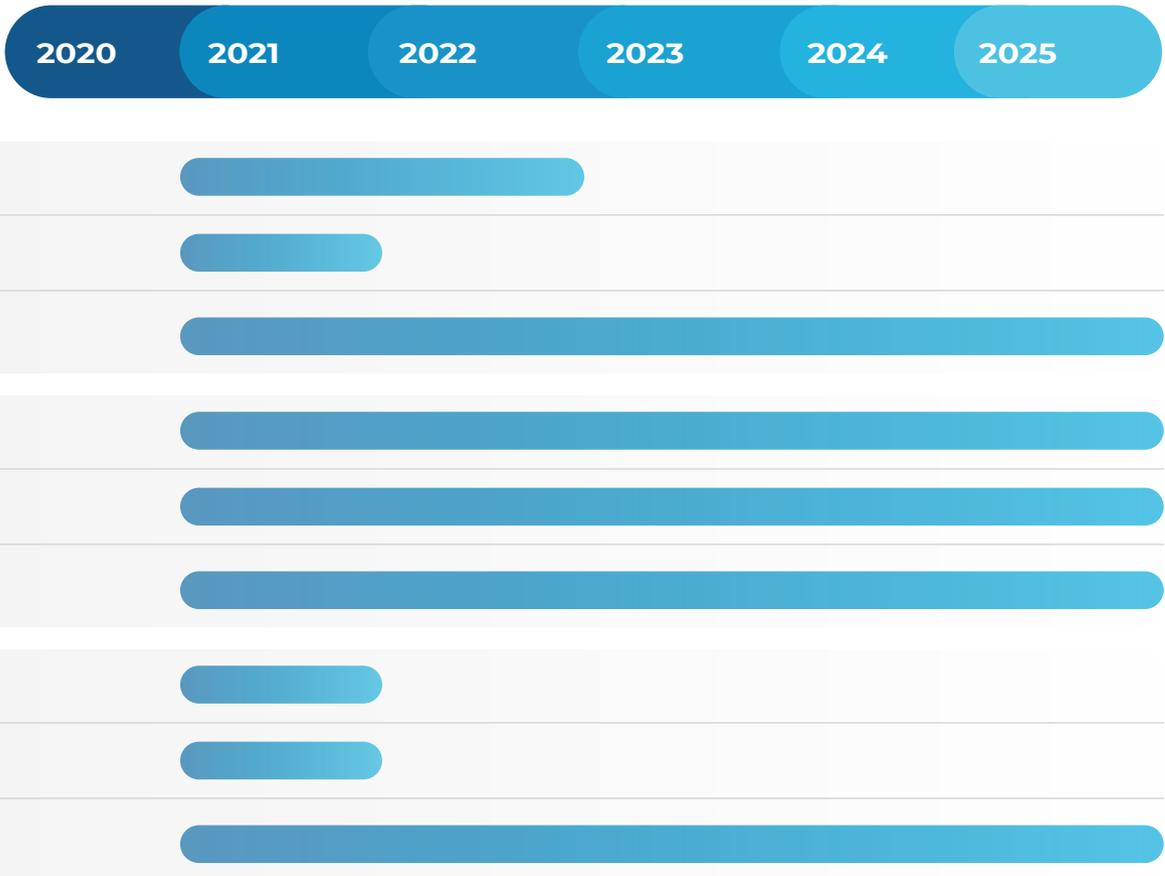
Enhancing HR capacity of Islamic banking regulators

**Enhancing Supervisory Effectiveness**

Developing Islamic banking supervisory tools

Evaluating supervisory HR and organisational needs

Enhancing capacity of Islamic banking supervisors







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