

PRESS RELEASE
OJK HOLDS INTERNATIONAL SHARIA FINANCE CONFERENCE
TO PREPARE FUTURE STRATEGIES
“Revitalizing Islamic Finance in the New Normal Era”

Financial Services Authority, Jakarta, September 29, 2016: The Financial Services Authority (OJK) hosted International Conference on Sharia Finance on Thursday (September 29, 2016) in Jakarta, on the theme of “Revitalizing Islamic Finance in the New Normal Era.” The event was held to draw up strategies for developing Sharia finance ahead.

The right strategies for Sharia finance development are expected to mitigate the risks and challenges that the industry face and help satisfy what Sharia finance needs to foster its expansion, growth and development in the new normal era.

OJK’s Deputy Chairman Rahmat Waluyanto opened the conference, which was attended by 400 participants from various countries, including Malaysia, Pakistan, Kazakhstan, Saudi Arabia and the United Kingdom.

In his welcoming speech, Rahmat said that in the new normal era, when economy slowed down and consumers spent less, the Sharia finance industry should get ready to adjust itself properly in order to survive and achieve successful development.

In this kind of situation, the OJK will also continue developing the Sharia finance industry, among others, by building the capacity of the industry’s human resources, encouraging the industry to launch innovative products in order to expand the market, increasing access to Sharia finance institutions, and growing the number of Sharia finance consumers.

OJK data shows that amid global economic slowdown, Indonesia’s Sharia finance industry has managed to improve its performance as seen from the Sharia banking sector’s condition.

Contribution of the Sharia banking industry to the national banking industry has increased from the previous year, from 4.60 percent as of July 2015 to 4.81 percent as of July 2016. Such contribution could reach around 5.13 percent if Aceh Regional Development Bank, which had converted into an Sharia conventional bank, was also taken into consideration.

In line with the rising contribution, Sharia banking (Sharia banks and Sharia business units) assets have soared by 18.49 percent year-on-year (y-o-y), from IDR 272.6 trillion (as of July 2015) to IDR 305.5 trillion (as of July 2016). The rise was mainly driven by third-party funds collection that has

grown 12.54 percent y-o-y, from IDR 216 trillion (as of July 2015) to IDR 243 trillion (as of July 2016). The growth in turn has spurred total loans channeled to climb 7.47 percent y-o-y, from IDR 204.8 trillion (as of July 2015) to IDR 220.1 trillion.

Regarding quality of financing, year-on-year gross non-performing financing (NPF) ratio has dropped from 4.89 percent (as of July 2015) to 4.81 percent (as of July 2016). On the other hand, the Sharia banking sector has enjoyed higher profitability as reflected by its rising return-on-assets (ROA) ratio, from 0.91 percent (as of July 2015) to 1.06 percent (as of July 2016). The sector also saw its cost-to-income ratio improve, from 94.19 percent (as of July 2015) to 92.78 percent (as of July 2016).

Moreover, the Sharia banking industry has recorded higher capital adequacy as reflected by its capital adequacy ratio (CAR) that climbed from 14.47 percent (as of July 2015) to 14.86 percent (as of July 2016).

With regard to the Sharia capital market, as of September 23, 2016, based on their types, Sharia securities have had different proportions of the total securities, as follows: Sharia stocks have made up 55.97 percent of total stocks, corporate sukuk have made up 3.88 percent of total corporate bonds, Sharia mutual funds have made up 3.76 percent of total mutual funds and state sukuk have made up 15.08 percent of total state bonds.

Regarding development of the Sharia non-bank financial industry (IKNB), the industry's total assets have soared by 23.18 percent to IDR 80.1 trillion as of July 2016. The growth mostly came from the arrival of more players and the development of the industry's products and services.

MoU between OJK and Astana Internasional

For the purpose of supporting the financial services industry's development, on last Thursday (September 29, 2016) the OJK also agreed to cooperate with the Astana International Financial Centre (AIFC), a financial institution in Kazakhstan.

The agreement was embodied in a memorandum of understanding (MoU) that was signed by Chairman of OJK's Board of Commissioners Muliaman D. Hadad and AIFC Governor Kairat Kelimbetov.

The birth of AIFC in 2015 was initiated by Kazakhstan's President Nursultan Nazarbayev. He wanted to see the country become a leading financial center as well as the financial hub for Central Asian, Caucasus, Eurasian Economic Union, Middle East, Western China, and European countries and Mongolia.

The AIFC was designed to attract foreign investments, open up Kazakhstan's banking sector, facilitate the entry of insurance companies and Sharia finance institutions into the country and persuade world leaders in financial

services, which in turn will promote best practices in Kazakhstan, boost the country's economic stability and foster its economic growth.

The MoU spells out cooperation between the OJK and the AIFC, which is aimed at supporting the development of excellent financial monitoring mechanism. The collaboration will also be implemented by exchanging knowledge and expertise (capacity building programs) between conventional and Sharia financial markets on financial institutions monitoring—in regard to their prudential standards and market conduct, financial product and market development, crisis management and financial institution resolution, global monitoring reform and partnerships in international forum, etc.

Prior to signing the memorandum, the OJK and the AIFC held bilateral talks on Sharia finance, financial technology (fintech), financial inclusion, capacity building as well as training and prudential standards.

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