

Opening Address by Governor of Bank Indonesia

The 3rd Bank Indonesia International Seminar on Islamic Finance

"A New Phase of Islamic Finance: Capturing the Untapped Areas to Improve the Quality of Economic Development"

BismillahirRahmanir Rahim

*Excellencies, Distinguished Speakers, Honoured Guests, Ladies and Gentlemen,
Assalamu 'alaikum WarahmahtullahWabarakatuh, and very Good Morning*

Greetings

1. It is both a pleasure and an honor for me to be here today on this seminar to meet some outstanding speakers and audiences. Let me first, on behalf of Bank Indonesia, express our thanks and appreciation to prominent speakers and distinguished guests from many well respected international organizations, regulatory bodies, academic institutions and sharia scholars in this important gathering of policy makers and market players in Islamic banking and finance.

Choice of theme

Ladies and Gentlemen,

2. Considering the current development in the global Islamic finance, we choose the theme of the 3rd Bank Indonesia International Seminar on Islamic Finance is: *"A New Phase of Islamic Finance: Capturing the Untapped Areas to Improve the Quality of Economic Development"*. I would personally expect that through the exchange of thoughts and further deliberation, this seminar can produce genuine ideas that signify the role of Islamic finance in sustaining quality of economic development. Those ideas are expected to touch upon four main areas; including issues on:
 - (i) How to position Islamic norms in the economic activities that promotes sustainability and responsibility in the economic and financial activities,
 - (ii) How to make the Islamic financial vehicles become alive in supporting infrastructure development that is beneficial to the economy in general,
 - (iii) How to position and promote further development of Islamic social sector, including Islamic microfinance, zakat and waqaf, that could potentially serve as another pillar of *financial safety-net*, and
 - (iv) How to get more understanding to mainstream the Islamic finance into the national policy and to contribute to the financial stability.

3. As we are all aware, in the global scene, Islamic finance is showing tremendous development in all fronts. Islamic banking, Islamic capital market, and takaful industry have shown significant developments in terms of assets, variety of products, and regulatory framework. Financial regulators of many jurisdictions, including Bank Indonesia, have been active to support the establishment of international regulatory standard setter such as the Islamic Financial Services Board (IFSB) and other supporting institutions - like the International Islamic Financial Market (IIFM) and International Islamic Liquidity Management (IILM). Islamic social sector that includes *zakat*, *waqaf* and Islamic microfinance - which are play as important frontiers in Islamic financial system, have also shown positive trend. As a system, Islamic finance has a huge potential to serve as a common platform for economic development that incorporates norms and values for all society - that share the same values such as good ethics, governance, environmental issues, and morality.
4. In order to gain the maximum benefits, the Islamic financial system should earn a comprehensive and systemic development approach. This will show the relevance of Islamic finance to the economic development in general. Indonesia has also actively participated in the recent discussion on development of framework for Islamic financial system assessment (iFSAP) initiated by IDB and IFSB. Even though we address a specific approach in developing and regulating Islamic financial services industry, due to its distinctiveness and infant stage of development, Islamic finance should not be considered as a niche market disconnected from the mainstream policy, but it serves as an integrated part of financial system and another pillar sustaining the economic development.

Indonesia in general

Ladies and Gentlemen,

5. Indonesia has been successful in maintaining stable economic development. Amid growing uncertainty on the global stage, Indonesia's economy produced solid growth, controlled inflation and maintained financial system stability. During the past year, Indonesia's economy achieved an impressive growth rate of 6.2% on the back of strong consumption and private investment. Despite the current account slipping into a deficit, the balance of payments was maintained by greater funding in the form of foreign direct investment. This quality growth and stability are achieved through multisectors developments including prudent monetary, fiscal and macro prudential policy, comprehensive financial regulatory and supervisory framework, and infrastructure development.
6. In the area of Islamic finance, the Indonesian government has put very serious effort to develop this financial system within its mainstream policy. This is indicated by some facts such as: (i) laying down a strong legal foundation including; Islamic

banking act, sukuk, zakat and waqaf acts, (ii) establish enabling financial infrastructure; including a comprehensive islamic financial regulation and supervision that comply with international standar and best practices, liquidity instrument and money market that could facilitite an efficient financial market for domestic and international players, and a comprehensive shariah governance framework that enhance community trust to the system, and (iii) authorities and government active involment in Islamic financial sector and market development. All financial authorities hand in hand in developing Islamic financial sector, providing Islamic monetary instrumentsand Lender of the Last Resort (LOLR) facility and deposit insurance scheme for Islamic banking,

7. We understand that the development of an Islamic financial system needs to include the respective componentscomprising the Islamic banking industry, the takaful industry, the Islamic capital and money markets,given the strong linkages,interdependence and synergies among these components in the system.The spectrum of participants and the diversity of instruments are among the key attributes in creatingthe enabling environment for a dynamic Islamic financial system. This has been the approach adoptedby Indonesia at the very onset of our journey in the development of a comprehensive Islamic financialsystem that is progressive and sustainable.
8. These efforts have been fruitful. The Islamic banking industry has been growing above 35 percent annually with low non performing financing. Asset of the Indonesian Islamic banking has achieved Rp 214 trillion or equivalent to USD 24 billion. Psychological threshold of 5 percent market share is expected to be achieved within this quarter. In fiscal sector, government regularly issues the government sukuk both in domestic and foreign curency under *ijarah* based and project based schemes. In zakat sector, according to the report by National Zakat Board (BAZNAS), annual collections of USD 0.14 billion has been secured. This may serve as an important componentof Indonesian financial safety net and financial inclusion. This Islamic financial inclusion is also supported by around 5,500 Islamic microfinance institutions that are spread across the country.
9. The strategy for development of Indonesian Islamic banking industry is prescribed in the Islamic banking blueprint that emphasizes on: setting appropriate regulatory incentives for development, infrastructure development (including infrastructure for risk based supervision), developing infrastructure to provide accurate market information, customer education and protection, and product development to facilitate variety of transactions. To enhance the contribution of Islamic finance in the economy, it is necessary to develop a robust and comprehensive Islamic financial system; which encompasses both the banking and the non-bank Islamic financial

intermediaries, the Islamic financial markets, offering the range of Islamic financial products that is supported by a well-developed Islamic financial infrastructure.

Planning

Ladies and Gentlemen,

10. Indonesia provides a huge opportunity to develop Islamic financial institutions. Some driven factors to be mentioned are: a big population of more than 200 million Muslim with a rapid growing mid-class society, stable economic growth, and a huge resources. With this potential, Indonesia could develop itself to be an international hub for Islamic finance industry. Although maintaining the growth requires good strategy to correctly position the industry in the society.

11. There are 3 areas of emphasizes that cover: development of a sufficient pool of talent in Islamic finance, product and services quality enhancement, and market education and development. The development of a sufficient pool of appropriately skilled Islamic finance practitioners needs to be accorded the highest priority. The required skill set in Islamic finance is unique. It needs to have the right blend of knowledge of finance with the understanding of the Shariah as being central. The upholding of Shariah principles must permeate from the highest level, including at the board and senior management levels, which provide the strategic direction for the Islamic financial institution and to the operational levels. Sound policies and practices premised on Shariah principles will evolve the Islamic financial system into a financial system that is distinctively ethical and that which promotes economic justice. To meet this objective in fulfilling the educational needs of the different levels of Islamic finance practitioners, including professionals and specialists in Islamic finance, many initiatives and cooperation between educational and training institutions has been developed, some activities such as training for trainers, seminars and research forum, and special trainings for judges, lawyers, business advisors, auditors, even high school teachers also organized frequently. In the future, further collaboration may also be established with more international research institutions, international standard setting bodies, and financial authorities.

12. Product development activities will try to widen the variety of financial transactions that fits with the needs of the customers. This effort enquires collaborative efforts by the regulators, Islamic banks, business, and shariah experts. A fundamental prerequisite is to promote innovation in the development of a broader range of Islamic financial market instruments. The product development will cover Islamic financial transaction for domestic purposes as well as cross border transactions which is beneficial for international trade and investment. These include instruments and product that fulfill the need to enhance financial inclusion such as branchless banking instruments as well as Shariah-compliant risk mitigating instruments.

Mutual interpretation and recognition will be very important to achieve this objective.

13. Market development and financial education activities will involve proper positioning strategy that allow the public to access correct information about Islamic financial products and proper positioning strategy in the market. The campaign will carry universality that is acceptable to the society in general. To accelerate the Islamic banking market, Bank Indonesia also encourage to increase the roles of the parents company of Islamic banks to gradually support the capital, give technical assistance and allow office channeling to the subordinate Islamic banks, has substantially given much benefit to the acceleration of Islamic banks and Islamic banking windows. Furthermore, we create an appropriate business condition for Islamic banks to optimize investment based financing by providing real sector index, establishing advisory facility (pool of experts from association of Islamic banks) and harmonizing regulations of Islamic banking and Islamic financial institutions in general.

Excellencies, Ladies and Gentlemen

14. Much work remains to be done to establish a robust, more contributive Islamic financial system especially in capturing the untapped areas to improve the quality of economic development in our jurisdiction; so we must do so systematically with clear design. The years ahead will not be without challenges; in fact we will face many more challenges than today. In closing, it is my hope that this forum will be able to serve as an arena of information exchange. It takes people from different skills and abilities; authorities, bankers, academics and shariah scholars, and others to build a better Islamic financial system and I hope our participation here will serve as a notable step in that effort.
15. Please allow me to express my appreciation and sincere gratitude to distinguished speakers for their willingness to share their expertise and knowledge. I would also like to give my deep appreciation and thank to all of the committee for arranging this wonderful event. I wish you all havingan inspiring and fruitful discussion and we can contribute to the development of Islamic finance in the world.
16. Finally, by saying '*Bismillahir Rahmanir Rahim*', I am delighted to officially open "**The 3rd Bank Indonesia International Seminar on Islamic Finance**". May Allah Almighty bestow us the strength and patient to persevere in fulfilling our duty for a better future.

Thank you very much for your kind attention.

Wabillahi taufik walhidayah, wassalamu alaikum warrahmatullahi wabarakaatuh