

An update on the Indonesian Islamic banking industry



INDONESIA

By Farouk Abdullah Alwyni

As of July 2017, the market share of the Islamic banking industry in Indonesia stood at 5.7% of the total banking industry, recording a continuing, albeit small, rise. In 2016, it reached 5.5% compared with 5% in the years of 2014 & 2015 (see Table 1).

The Indonesian Islamic banking industry consists of 13 fully-fledged Islamic commercial banks and 21 Islamic windows of conventional banks. In addition, there are also 167 rural banks whose assets account for just around 2.5% of the total Islamic banking industry. Due to the small size of many Islamic rural banks, when talking about the Islamic banking industry, the discussions tend to focus only on fully-fledged Islamic commercial banks and Islamic windows of conventional banks.

After experiencing a slowdown in 2014 and 2015, 2016 marked the resumption of the growth of the Islamic banking industry in Indonesia, and the trend continued until July 2017. Toward the end of 2016, a new major player emerged in the Indonesian Islamic banking industry with the conversion of one conventional regional state-owned bank, Bank Aceh, into a fully-fledged

Shariah bank known as Bank Aceh Syariah (BAS).

As of July 2017, the major players in the Indonesian Islamic banking industry numbered seven including BAS. There are five fully-fledged Islamic banks, namely Bank Syariah Mandiri (BSM), Bank Muamalat Indonesia (BMI), Bank Rakyat Indonesia Syariah (BRIS), Bank Negara Indonesia Syariah (BNIS) and BAS, while the other two, namely Permata Syariah and CIMB Niaga Syariah, are Islamic windows (see Table 2). The assets of these seven Islamic banks and windows account for 67.4% of total Islamic banking assets.

Except for BMI, all the aforementioned Islamic banks and windows recorded a relatively steady growth from 2015 until July 2017. As of July 2017, the concentration of Islamic banking assets belonging to BSM and BMI has slowly been diversified. In 2010, the market share of BSM and BMI reached around 55% of the Indonesian Islamic banking industry. In 2015, their market share declined to 43%, and by July 2017, it went down further to 37.9%.

On the other hand, with the addition of BAS, all the fully-fledged Islamic banks in the table have strengthened their position in the market by having a 21.8% cumulative market share of the total

banking industry. CIMB Niaga Syariah also performed consistently well from 2016 to July 2017 and was able to increase its market share to 4.1% in July 2017 from 3.1% in 2015.

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It is most likely that the landscape of Indonesia’s Islamic banking industry will be more diversified in the next few years with second-tier banks starting to play more important roles in the market. Looking at the growth figures, if there is no significant change (improvement) in the way BMI is managed, there is a possibility that BRIS and/or BNIS will overtake BMI in the foreseeable future. (f)

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Table 1: Value of the Indonesian Islamic banking industry (IDR trillion)

	2014	2015	2016	July 2017
Assets of Islamic commercial banks and Islamic windows	272.34	296.26	356.5	378.57
Assets of Islamic rural banks	6.57	7.74	9.16	9.91
Assets of conventional commercial banks	5,410.1	5,919.39	6,475.6	6,693.53
Assets of rural banks	89.88	101.71	113.5	118.71

Source: Financial Services Authority (OJK)
Note: US\$1 = IDR13,442 (Reuters rate on the 5th October 2017)

Table 2: Total assets of six largest Indonesian Islamic banks and windows (in billion Indonesian rupiah)

	2010	2011	2012	2013	2014	2015	2016	July 2017
BSM	32,482	48,672	54,229	63,965	66,955	70,370	78,832	82,947
BMI	21,443	32,479	44,262	53,707	62,410	57,141	55,786	57,683
BRIS	6,856	11,201	14,089	17,401	20,341	24,230	27,687	29,531
BNIS	6,395	8,467	10,645	14,708	19,492	23,018	28,314	31,152
BAS	N/A	N/A	N/A	15,250	16,385	18,590	18,759	21,997
Permata Syariah (Islamic window)	2,274	5,255	10,646	16,259	16,137	15,240	15,837	16,614*
CIMB Niaga Syariah (Islamic window)	3,169	5,263	9,078	9,846	8,462	9,106	12,780	15,478*

Sources: Figures for July 2017 are unaudited figures from Bank Indonesia (the central bank) and other figures are from audited banks’ financial reports.
Notes: * Permata Syariah and CIMB Niaga Syariah’s figures are June 2016 figures.
** US\$1 = IDR13,442 (Reuters rate on the 5th October 2017).