

An update on Indonesian Islamic non-bank financial institutions



INDONESIA

By Farouk Abdullah Alwyni

One important component of the Indonesian Islamic finance industry is a group of entities called Islamic non-bank financial institutions (NBFIs).

NBFIs, according to the classification made by Indonesia's Financial Services Authority (OJK), consist of insurance companies (life, general, and reinsurance), financing companies or known also as multifinance companies, venture capital companies, specialized financial institutions (SFIs) and microfinancing institutions. Financial institutions that fall under SFIs are financing guarantee companies, the Islamic unit of state-owned Indonesian Export Financing Institution and the Islamic unit of state-owned Pawn Company.

In 2016, the assets of Islamic NBFIs grew at 36.5%, and the growth pattern

continued until February 2017. Although the total assets of Islamic NBFIs (IDR89.9 trillion (US\$6.76 billion)) are still only around one-third of total Islamic banking assets (IDR254.18 trillion (US\$19.11 billion)) in terms of the absolute value in 2016, the Islamic NBFIs' growth in that year is almost twice as fast as the growth of Islamic banking assets (19.1%).

If we exclude the conversion of one regional development bank (Bank Aceh) into a fully-fledged Islamic bank in September 2016, NBFIs' growth was even better — five times faster than the growth of Islamic banking assets (7.3%).

The major players in fostering the growth of Islamic NBFIs' assets are Islamic financing companies, Islamic life insurance and Islamic SFIs. As at February 2017, Islamic financing companies consist of three fully-fledged companies and 37 Islamic business units whereas Islamic life insurance has six

fully-fledged companies and 21 Islamic business units.

Considering that market penetration of the insurance industry as a whole is still low, Islamic life insurance has the potential to grow further.

Furthermore, according to the Indonesian Islamic Insurance Association, only 9.4% of the Indonesian population know that there are Islamic life insurance products.

Although it is still small in terms of the absolute value, similar progress can be seen also in its general insurance and re-insurance counterpart which recorded a 25.46% growth in 2016, almost double the 2015 growth of 13.9%.

The importance of Islamic NBFIs to further contribute to the development of the Indonesian Islamic finance industry was also stressed by OJK.

In its 2015-19 Islamic NBFIs Roadmap, OJK laid out its missions to (i) strengthen the role of Islamic NBFIs in economic and financial inclusion (ii) realize Islamic NBFIs which are robust, well-managed and stable, and (iii) enhance support in the areas of human resources, infrastructure and information technology. (2)

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Table 1: Assets of Indonesian Islamic NBFIs (IDR trillion)

	2015	2016	February 2017
Islamic life insurance	21.61	27.08	28.06
Islamic general insurance and reinsurance	4.91	6.16	6.22
Islamic financing companies	22.35	35.74	35.72
Islamic venture capital companies	0.48	1.09	1.24
Islamic specialized financial institutions	15.5	18.43	18.59
Islamic microfinancing institutions	0.03	0.06	0.07
Total	64.88	88.56	89.9

Source: Indonesia's Financial Services Authority (OJK)

Financial institution Sukuk issuers on the rise



FINANCIAL INSTITUTIONS
AND CORPORATE SUKUK

By Rizwan H Kanji

In the Middle East, Dar Al Arkan announced the closing of the 4th tranche of its US dollar-denominated international Sukuk program, raising SAR1.88 billion (US\$501.14 million). The five-year Islamic paper will mature on the 10th April 2022 at a profit rate of 6.88% per annum and was two times oversubscribed. Saudi Aramco issued its first-ever local currency Sukuk,

off the back of the debut sovereign issuance, and raised SAR11.25 billion (US\$3 billion) under its Sukuk program. Ezdan Holding issued a US\$500 million paper under its US\$2 billion program, while, in Qatar, the shareholders of Qatar International Islamic Bank and Masraf Al Rayan approved the establishment of Sukuk programs.

Other financial institutions that came to market include Oman's Alizz Islamic Bank which confirmed a planned Tier 1 Sukuk through a private placement and

Saudi British Bank which is also planning to establish a US\$2 billion international Sukuk program and a separate domestic issuance. Kuwait's Al Ahli Bank and Kuwait Finance House have also confirmed their intention to issue Sukuk.

Finally, the IDB priced its US\$1.25 billion senior unsecured five-year Sukuk at a profit rate of 2.39%. (3)

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