

Indonesia maintains position as leading sovereign Sukuk issuer



INDONESIA

By Farouk Abdullah Alwyni

Government Sukuk have been the leading instruments of the Indonesian Islamic finance industry since 2015. According to the Ministry of Finance (MoF)'s statistics, total government Sukuk issued as at the 29th March 2017 stood at IDR664.53 trillion (US\$49.91 billion), with global Sukuk (denominated in the US dollar) accounting for 24.2%. On the same date, the government issued a dual-tranche global Sukuk facility totaling US\$3 billion with one tranche amounting to US\$2 billion (with a 10-year tenor and 4.15% coupon) and the other amounting to US\$1 billion (with a five-year tenor and 3.4% coupon).

Currently, there are seven types of government Islamic securities with tenors ranging from six months for zero-coupon securities (some sort of Islamic treasury bills) to 30 years. While most

Islamic securities issued are tradable, there are also non-tradable Sukuk issued exclusively for the placement of Hajj funds from the Ministry of Religious Affairs.

In its recent press conference, the MoF stated that up to the 29th March 2017, the total issuance of Indonesia's global Sukuk reached US\$13.15 billion. This amount accounted for 25.67% of the total sovereign Sukuk in the global market (US\$53.14 billion). Since 2016, Indonesia has become the largest global sovereign Sukuk issuer in terms of both the total issuance and outstanding. Other major sovereign issuers are the UAE (Dubai), Malaysia, Turkey and Qatar.

Domestically, government Islamic securities have the lion's share of the Islamic finance sector with issuance surpassing the total Islamic banking assets since 2015. As at the 12th May 2017 (see Table 1), government Islamic securities accounted for 16.6% of the

total outstanding government securities. Although there is a declining share in the total government securities issued compared with 2016, we still have more than half a year to go for 2017. However, the share of government Islamic securities from total outstanding government securities is more than three times larger compared to Islamic banking shares in the total banking industry. The market share of the Islamic banking industry is still only just above 5%.

The next stage of government Sukuk development is to drive more innovation in infrastructure financing and in the Islamic capital market. For infrastructure financing, Sukuk could actually also be used under the public-private-partnership scheme.⁽²⁾

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Table 1: Government securities outstanding (IDR trillion)

	2011	2012	2013	2014	2015	2016	12 th May 2017
Government debt securities	684.6	757.2	908.1	1,101.6	1,327.4	1,531.5	2,456.9
Government Islamic securities	62.8 (8.4%)	98.8 (11.5%)	118.7 (11.6%)	143.9 (11.6%)	201 (15.1%)	285 (18.7%)	490 (16.6%)
Total government securities outstanding	747.4	856	1,026.8	1,245.5	1,528.4	1,816.5	2,946.9

Source: Data from 2011-16 from Bank Indonesia (the central bank). It only includes the rupiah-denominated and tradable securities (conventional and Islamic). Data up to the 12th May 2017 comes from the Ministry of Finance. It includes all government securities (rupiah and foreign-denominated, tradable and non-tradable).

Business continuity for Islamic banks



RISK MANAGEMENT

By Dr Ken Baldwin

In late May 2017, British Airways faced a serious problem. Its IT systems shut down. Thousands of passengers had their travel plans ruined. Apparently, and according to a BBC news source I read, the most heavily computerized industries are the banking industry and the airline industry.

So, what does this all mean for Islamic banks and their exposure to cyberattacks, system failures and business disruption from IT events?

I recall several years ago assessing the operational risk of massive IT failure of

an Islamic bank I worked for. Because I worked mostly for investment banks, the risk of business disruption affecting customers was negligible. But in terms of our conducting daily activities, it would have been a serious problem.

In general, I have seen quite different attitudes shown toward this risk. In retail banks, the risk is usually taken very seriously, as people can see the immediate effects a disruption would have on customers and retail banking transactions. And for sure, the regulator — for whom one main purpose in life after all is to protect depositors — is on top of the banks, making sure they have backups in place and a sound disaster recovery process established.

The most important aspect to me, however, is cultural attitude. Making plans to manage disruption should not be about ticking a box to say 'job done, our plan looks good'. The backup plan must be easily implementable and its execution practiced not too infrequently. People need to know what's expected of them, where they need to be and what priorities exist with regards to time to recovery. These should be based on real potential impact and not ego!⁽²⁾

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