

# Development and growth of Islamic asset management in Indonesia

Basically, there is not much difference between conventional and Islamic asset management. Both sectors apply similar approaches in terms of client origination, investment strategy selection and asset allocation. The differences will be in terms of security selection and investment monitoring. In the case of Islamic asset management, security selection and investment monitoring will take into consideration the Shariah compliant aspects of securities, by applying qualitative and quantitative approaches. FAROUK ABDULLAH ALWYNI explores.



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Globally, Islamic asset management has grown over time and its assets under management stood at US\$110 billion in 2017 as per the Islamic Finance Development Report 2018. The major players in Islamic asset management consist of Iran, Malaysia and Saudi Arabia, accounting for 87% of the total Islamic mutual funds globally. Although Indonesia ranked third in terms of mutual funds launched in 2017, it is still not among the top five markets for Islamic funds since its funds are not that big. It is reported that most of the funds are invested in equity (42%), the money market (26%) and the commodity market (14%).

The underlying assets of the Islamic asset management industry in Indonesia nowadays consist of:

- (i) Shariah compliant equity listed on the Indonesia stock exchange
- (ii) Sukuk
- (iii) Shariah money market instruments, and
- (iv) other Shariah compliant marketable securities.

Mutual funds are still the primary product of Islamic asset management in Indonesia. It is important also to note that according to the Islamic Finance Development Report 2018, the Indonesian market has a high concentration of institutional investors with retail investors contributing only a minor portion.

According to Indonesia's Financial Services Authority (OJK), there are nine types of Islamic mutual funds available in Indonesia – mixed funds, exchange-traded funds (ETFs), index funds, fixed income funds, equity funds, protected funds, foreign equity funds and Sukuk-based funds. Four types of funds make up about 73% of total Indonesian Islamic

funds – Islamic equity funds (25.4%), protected funds (18.8%), fixed income funds (14.4%) and money market funds (14.4%). In fact, equities are the most dominant asset class in the Indonesian mutual fund industry.

One study found that Schrodgers, the biggest fund manager in Indonesia, invested about 90% of its portfolio in equities in 2015. Panin, another leading asset management company, also invested mainly in equity that could reach up to 95% of its portfolio at times. Although the money market and bonds are offered as other asset classes, they are not as attractive as equities. Other types of Islamic mutual funds such as REITs do not really exist whereas ETFs are still very new to the market.

Up until April 2019, as shown in Table 1, there are 204 Islamic mutual funds in the market accounting for 11.67% of the total number of mutual funds existing in Indonesia. These funds amounted to around US\$2.5 billion, representing 6.92% of the total net asset value (NAV) of mutual funds. There have been steady increases, albeit slow, in both the

**Table1: Indonesia's mutual funds and NAV**

Year	Number of mutual funds				NAV (in IDR billion)			
	Shariah mutual funds	Conventional mutual funds	Total mutual funds	%	Shariah mutual funds	Conventional mutual funds	Total mutual funds	%
2010	48	564	612	7.84	5,225.78	143,861.59	149,087.37	3.51
2011	50	596	646	7.74	5,564.79	162,672.1	168,236.89	3.31
2012	58	696	754	7.69	8,050.07	204,541.97	212,592.04	3.79
2013	65	758	823	7.9	9,432.19	183,112.33	192,544.52	4.9
2014	74	820	894	8.31	11,158	230,304.09	241,462.09	4.65
2015	93	998	1,091	8.52	11,019.43	260,949.57	271,969	4.05
2016	136	1,289	1,425	9.54	14,914.63	323,835.18	338,749.8	4.4
2017	182	1,595	1,777	10.24	28,311.77	429,194.8	457,506.57	6.19
2018	224	1,875	2,099	10.67	34,491.17	470,899.13	505,390.3	6.82
April 2019	243	1,839	2,082	11.67	35,378.79	476,220.91	511,599.7	6.92

Note: US\$1 = IDR14,163 on the 26<sup>th</sup> June 2019 (Reuters.com)

Source: Indonesia's Financial Services Authority

Continued

numbers and the NAV of Islamic funds in Indonesia over the last nine years (2010 to April 2019).

However, it is important to note that in 2017 and 2018, there had been significant increases of the NAV of Islamic mutual funds in Indonesia. In 2017, there was an almost 100% increase to around US\$1.99 billion from around US\$1.05 billion in 2016. The increase continued in 2018 reaching around US\$2.4 billion.

The objective of the Islamic asset management industry is to tap the retail market more, in line with OJK's regulation No 19/POJK.04/2015 which allows asset management companies to invest up to 100% of their funds in Shariah compliant foreign securities (from a maximum of 15% previously), while the formation of the Hajj Financial Management Board (BPKH) in 2017 – which has around US\$7.9 billion under its management – might have contributed to the major increase of the NAV of Islamic mutual funds in the last two years.

With its huge predominantly Muslim population and the growing awareness of Shariah-related aspects, Indonesia actually has the potential to be the largest retail market for the Islamic asset management industry. The current total value of the Islamic asset management industry of US\$2.5 billion is still very small compared to Malaysia's US\$27 billion in 2017 with only a population of about one-tenth that of Indonesia.

To further increase the market share of the Islamic asset management industry, it is important to create more awareness of Shariah compliance among the investor classes in Indonesia, not only in the retail sector but also in the corporate sector, especially considering the fact that institutional investors are still dominating the market.

However, it is equally important that investment companies offering Shariah products be given incentives to increase their portfolio toward more Shariah compliant products, so that they will prioritize Islamic funds over conventional when selling. ☺

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The United Nations Commission on Trade and Development (UNCTAD) recently estimated that in order to adequately fund the 17 Sustainable Development Goals (SDGs) in developing countries, US\$5 trillion to US\$7 trillion will be required in annual investments by 2030. Fulfilling this ambitious financial requirement presents not only challenges, but also significant opportunities.

The recent introduction of regulatory frameworks and initiatives promoting the development of sustainable finance across Southeast Asia has highlighted the significance and relevance of this important and fast-growing sector. With more corporates, financial institutions, government bodies and regulators becoming aware of Sustainable Development Goals, countries offering environments conducive for the growth of sustainable finance and investment will see tangible and long-term benefits.

Islamic finance plays an important role. Firstly, through the development of effective sell-side capital market products such as Green Sukuk in order to fund sustainable and humanitarian projects and initiatives. Secondly, to provide and channel investment from Shariah compliant asset managers and institutional investors to such initiatives.

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