

IFN Islamic Finance *news*

The World's Leading Islamic Finance News Provider

Featuring:

IFN INDONESIA
On Air
FORUM & REPORT 2020

IFN INDONESIA REPORT

2020

LEAD PARTNER



MULTILATERAL STRATEGIC PARTNERS



STRATEGIC PARTNER



TECHNOLOGY PARTNER



PARTNERS



The Halal Corridor

Connecting Business Opportunities across the Global Halal Economy

For more information, please email halalcorridor@cimb.com

FORWARD  **Your Business**



Analysis

**INDONESIA: FULL STEAM
AHEAD**
page 4

Case Study

**INDONESIA'S DOLLAR
SUKUK: FEATURING A
GREEN TRANCHE**
page 8

Reports

**INDONESIAN REGULATOR
APPOINTS NEW ISLAMIC
FINTECH GATEKEEPER TO
DEVELOP INDUSTRY**
page 10

**INDONESIAN SMES
TO FINALLY BECOME
SHARIAH-BASED LISTED
COMPANIES**
page 12

**GREATER CLARITY TO
INDONESIA'S SHARIAH
SPIN-OFF PROCESS**
page 14

News Briefs

page 18

Forum Overview

Day 1

**IFN INDONESIA: THE
GIANT AWAKENS**
page 20

**BACK-TO-BASICS:
OPPORTUNITIES FOR
ISLAMIC FINANCE TO
FLOURISH IN INDONESIA**
page 21

Day 2

**FUNDS,
INFRASTRUCTURE,
ISLAMIC CAPITAL
MARKETS AND
RESPONSIBLE FINANCE
INITIATIVES IN INDONESIA**
page 30

Day 3

**DRIVING FINANCIAL
TECHNOLOGY AND
DIGITIZATION IN THE
REPUBLIC**
page 35

Companies' List

page 39



INDONESIA: FULL STEAM AHEAD

In 2018, the market share of the Islamic finance industry in Indonesia was 8.5% with a 14.15% year-on-year growth, declining from previous years' growths which were above 20%, according to Otoritas Jasa Keuangan (OJK). NESSREEN TAMANO writes that despite this, the country with the highest Muslim population soldiers on, rolling out regulations to encourage Islamic finance and fully leaning into technology to do so.

Regulatory landscape

Indonesia's Islamic finance regulatory ecosystem witnessed a flurry of activity this past year. The government launched its 2019–24 Shariah Economy Master Plan (MEKSI) in May 2019, an improvement on the Indonesia Shariah Finance Architecture Master Plan and a roadmap comprising four strategies: strengthening Halal products, Shariah finance, MSMEs and optimizing the digital economy. The Indonesian National Islamic Finance Committee is also drafting a development roadmap for Islamic microfinance institutions.

Banking and finance

There are 14 fully-fledged Islamic banks, 34 Islamic banking windows and 196 rural Shariah banks in the country. In 2018, Islamic windows were given until 2023 to convert into stand-alone Islamic banks.

Rural Shariah banks have not performed particularly well. According to the OJK, despite a year-on-year increase in the number of banks with total assets of more than IDR10 billion

EIGER

Eiger Trading Advisors Ltd. is a UK-FCA-regulated Fintech specialising in Commodity Murabaha for the Islamic Financial Market.



Customised Trading Solutions



Market-Leading Fintech



Shariah Compliant Commodity



24/7 Service & Support

Eiger acts as a key market intermediary for over 100 Islamic Financial Institutions globally. Through the Eiger Trading Platform (ETP), we provide our clients with real-time purchase, transfer and sale of fully-deliverable, Shariah-compliant physical commodities.



Award Winning Fintech Solutions

IB&F Best Islamic Fintech Company (Kuala Lumpur) 2019

IB&F Best Islamic Fintech Company (UAE) 2019

GIFA Best Shariah Compliant Commodity Broker 2019

www.eigertrading.com | info@eigertrading.com

T: +44 (0) 203 216 2500

(US\$706,910), the net income of the rural Islamic banking asset class saw a significant decline during the February 2018–February 2019 period, from IDR36.35 million (US\$2,570.78) to IDR23.7 million (US\$1,676.13). Total banking assets are still under 6%.

President Joko Widodo inaugurated a micro Waqf bank in North Sumatra, expanding the OJK program outside of Java for the first time and bringing the number of micro Waqf banks up to 33 nationwide.

The country's first Islamic hedging financing facility was also arranged in 2019 by Maybank Indonesia for US\$128 million for state-owned enterprise Sarana Multi Infrastruktur.

Discussions for the potential merger of state-owned Islamic banks Bank Syariah Mandiri, Bank Negara Indonesia and Bank Rakyat Indonesia have also started, said to materialize in 2021. The OJK also started issuing orders to qualifying Islamic banks to merge, consolidate, take over or integrate to fulfil the minimum core capital requirement.

“The number of investors and the trading performance of the Indonesian Islamic capital market have grown significantly in the last seven years”

Capital market

According to MEKSI data, the number of investors and the trading performance of the Indonesian Islamic capital market have grown significantly in the last seven years, with the average growth of the number of investors at more than 100% per year and a market share of more than 50%.

In March 2019, the Indonesia Securities Central Depository developed a new system of securities depository and transaction settlement services that complies with Shariah principles. A month later, the Indonesia Stock Exchange launched a tradable stock Waqf facility, a new type of Islamic philanthropy linked to stocks.

Indonesia remains the biggest Sukuk issuer in the world in terms of value. Reinforcing its status as a pioneer in the sovereign green Sukuk market, the country issued its second one of the same in

February 2019, and a green retail Sukuk later in November. There are plans to issue at least two more in 2020.

In March 2020, the government issued its inaugural cash Waqf-linked Sukuk, raising IDR50.85 billion (US\$3.55 billion) on a private placement basis. Proceeds from the Sukuk are dedicated to developing Badan Wakaf Indonesia's new Waqf assets, including a hospital.

According to the Ministry of Finance, domestic corporate Sukuk issuances increased from IDR10.63 trillion (US\$751.25 million) in 2018 (full year) to IDR9.4 trillion (US\$663.68 million) during the first half of 2019 alone.

In August 2019, the ministry amended its regulation on the issuance and sale of state Sukuk in foreign exchanges in the international primary market to boost the participation of local banks in its sovereign Sukuk market. Under this new regulation, domestic financial institutions are now allowed to be joint lead managers of state Sukuk, even if they only have domestic operations.

In August 2020, the OJK launched a new Indonesian Islamic capital market for 2020-24 – an update to the previous one for 2014-19, and focusing on developing an integrated infrastructure with the country's Halal industry.

Asset management

According to the OJK, four types of funds make up about 73% of total Indonesian Islamic funds: Islamic equity funds (the most dominant asset class at 25.4%), protected funds (18.8%), fixed income funds (14.4%) and money market funds (14.4%). Other types of Islamic mutual funds, such as REITs, do not yet exist, and exchange-traded funds (ETFs) are still new in the market.

Takaful

There are 13 Takaful operators and 50 Takaful windows operating in Indonesia, and the sector remains dominated by Family Takaful. As with Islamic banking windows, Takaful windows have until 2023 to convert into stand-alone Takaful entities.

An initiative was introduced in 2019, expected to lead to great opportunities for the Takaful market, whereby BIRU utilizes blockchain to provide risk-sharing solutions for Takaful and re-Takaful operators, agents, brokers and technology providers.

Fintech

A rapidly growing fintech sector is pushing the market forward. In 2018, OJK launched the Digital Financial Innovation Regulation for Fintech Companies, which covers the supervision and regulation of the local fintech sector. Indonesia's Blossom Finance pioneered the Smart Sukuk platform also in 2018, making fundraising accessible even for small firms with a minimum size of US\$20,000.

MEKSI has three Islamic fintech initiatives — LinkAja Syariah, a Shariah compliant digital payment system that utilizes local Islamic banks as settlement banks; digital Zakat payments; and a centralized digital platform for Islamic cooperatives.

In August 2020, the Securities Commission Malaysia signed a cooperation agreement with the OJK to establish a collaborative fintech framework for both countries. The OJK also appointed the Indonesian Sharia Fintech Association to develop the industry. (F)

S&P Dow Jones Indices

A Division of **S&P Global**

**+ Core retirement
strategies**

**+ Comprehensive
ESG solutions**

**+ Multi-asset
diversification**

There's more to it
Index strategies
for every investor

**+ Risk management
with an income focus**

Give yourself the freedom to go
anywhere with S&P DJI.

spdji.com/indexology

Copyright © 2020 S&P Dow Jones Indices LLC. All rights reserved. S&P® and Indexology® are registered trademarks of Standard & Poor's Financial Services LLC. Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC. It is not possible to invest directly in an index. S&P Dow Jones Indices receives compensation for licensing its indices to third parties. S&P Dow Jones Indices LLC does not make investment recommendations and does not endorse, sponsor, promote or sell any investment product or fund based on its indices.



INDONESIA'S DOLLAR SUKUK: FEATURING A GREEN TRANCHE

Despite a delayed issue date in addition to being issued amid volatile market conditions, the Republic of Indonesia's dollar Sukuk worth US\$2.5 billion received an overwhelming response from global and local investors. **NESSREEN TAMANO** reports.

Issued through the government's SPV, Perusahaan Penerbit SBSSN Indonesia III (PPSI-III) established specifically to issue Islamic certificates, the green Sukuk generated an orderbook of US\$16.66 billion, nearly 6.7 times above its target.

The issuance is a series of three tranches: two trust certificates with five-year and 10-year tenors worth US\$750 million and US\$1 billion respectively, and a 30-year tranche worth US\$750 million structured under the Wakalah concept. The Sukuk issuance will be listed on both the Singapore Stock Exchange and NASDAQ Dubai, and is rated 'Baa2' by Moody's Investors Service, 'BBB' by S&P Global Ratings and 'BBB' by Fitch Ratings.

The Sukuk issuance achieved the lowest coupon rate for international Sukuk coming out of Indonesia and is also touted as the largest global Sukuk with a 30-year tenor in the region.

"This transaction received extraordinary demand from qualified and diverse

global investors, strengthened the Sukuk market and showed strong investor confidence in Indonesia," said the government. It saw orders from investors from the Middle East, Malaysia, the US and Europe.

The first tranche in the series — the five-year Sukuk — is a green issuance dedicated by the government to sustainable financing to support its commitment to tackle climate change. The green Sukuk facility is Indonesia's third issuance in the international market, with the most recent one being a green retail Sukuk facility issued at the end of 2019.

The series is in line with Indonesia's 2020 financing plan, which includes provisions to handle the impact of the COVID-19 pandemic as well as efforts to further strengthen the country's position in the international Islamic financial market and also to support the development of Islamic finance in Asia, the government noted. (E)

Indonesia's dollar Sukuk

US\$2.5 billion



17th June 2020

Issuer	Perusahaan Penerbit SBSSN Indonesia III
Tranches & structure	Tranche 1: US\$750 million; Tranche 2: US\$1 billion; Tranche 3: US\$750 million (Wakalah)
Purpose	Sustainable financing and handling the impact of COVID-19
Tenor	Tranche 1: Five years Tranche 2: 10 years Tranche 3: 30 years
Profit rate	Tranche 1: 2.3% Tranche 2: 2.8% Tranche 3: 3.8%
Joint lead managers/bookrunners	BNP Paribas; Dubai Islamic Bank; HSBC; Maybank; Standard Chartered
Joint green structuring advisors	BNP Paribas, HSBC
Co-managers	Danareksa Sekuritas, Trimegah Sekuritas Indonesia
Underlying assets	State property including land and buildings (51%) and government projects in 2020 (49%)
Listing	Singapore Stock Exchange, NASDAQ Dubai
Rating	'Baa2' by Moody's, 'BBB' by S&P, 'BBB' by Fitch
Investors	Tranche 1: Asia (40%), Middle East and Malaysia (32%), US (12%), Europe (11%), Indonesia (5%) Tranche 2: Asia (34%), Middle East and Malaysia (31%), US (18%), Europe (12%), Indonesia (5%) Tranche 3: Asia (44%), Europe (33%), Middle East and Malaysia (10%), US (8%), Indonesia (5%)

Demystifying Digital
Financial Services

Modern • Digital • Islamic
Bank-in-a-Box
Delivered in 3 Months

300+ Open Banking APIs

Digital Onboarding &
Instant Islamic Financing

Regulatory and Shariah
Compliant Solutions



Are you Digital Ready?
Get in Touch.

www.codebtech.com



INDONESIAN REGULATOR APPOINTS NEW ISLAMIC FINTECH GATEKEEPER TO DEVELOP INDUSTRY

The Indonesian Shariah Fintech Association (AFSI) has been appointed by the regulator to assist with developing Islamic fintech in Indonesia. JEVITHA MUTHUSAMY reports.

AFSI has received the greenlight from the Financial Services Authority or Otoritas Jasa Keuangan (OJK) to operate as a Shariah fintech association focusing on the Islamic fintech industry in Indonesia.

“Due to the rapid growth of Islamic fintech in Indonesia, OJK has appointed us to become the first layer for fintech companies looking to submit their applications to the regulator. That means, companies looking to be licensed fintech players in Indonesia have to go through the association to get proof and recommendation from us prior to submitting their application,” Ronald Yusuf Wijaya, the chairman of AFSI, tells IFN.

Similarly, in Malaysia, the Malaysia Digital Economy Corporation in August launched a fintech capacity-building program in collaboration with Bank Negara Malaysia to support Malaysia-based fintech companies to develop meaningful innovative products and services by enhancing their understanding of legal, compliance and regulation requirements.

The appointment is a huge step forward by the regulator to support the development of the Shariah fintech industry which has seen the number of illegal fintech companies rise to a whopping nine times higher than any other countries. From 2018 to June 2020, OJK has shut down 2,591 illegal fintech businesses in the country aided by its Investment Alert Task Force.

Among several initiatives done by AFSI is one where the association also lends a hand in creating regulations in accordance

with each Digital Financial Innovation (IKD) business model, which is regulated under POJK 13 /POJK.02/2018 Digital Financial Innovation in the Financial Services Sector.

“The way I see it, OJK would like AFSI to proactively look for threats, how to treat illegal fintechs and how to screen fintech companies in order to determine if they are eligible or ineligible to be licensed and also to look at their structure, if it’s Shariah compliant, among others,” explains Ronald.

The appointment was a fairly long process in which it took 15–16 months and several live demonstrations by AFSI for OJK to be confident that AFSI is competent in lending a hand in developing Indonesia’s Shariah fintech industry.

“OJK would like AFSI to proactively look for threats, how to treat illegal fintechs and how to screen fintech companies”

AFSI was established back in 2017 and to date, the association has 61 members comprising 20 peer-to-peer lending members, 27 members of IKD, two members of Shariah equity crowdfunding, two fintech payment members and 10 non-fintech members. 📌



Islamic Corporation for the
Development of the Private Sector

Member of the Islamic
Development Bank Group

Digital Economy Enabler in member countries



www.icd-ps.org



icd_ps



INDONESIAN SMES TO FINALLY BECOME SHARIAH-BASED LISTED COMPANIES

All this time, only large companies can be listed on the Indonesia Stock Exchange (IDX), while SMEs have not been able to seek funding through IPOs. As the SMEs are performing well and their demand to seek funding from capital markets grew higher, the IDX finally allowed SMEs to become Shariah-based listed companies.

According to data from the Indonesian Central Bureau of Statistics, the number of SMEs in Indonesia is estimated to reach 64 million with contributions approximately 60.3% of the total GDP. However, they have not been able to access the capital markets for funding.

The companies listed on the IDX, including Islamic-based listed companies, are divided into two boards — main board and development board. The main board is for big-sized and good performance companies, while the development board is for medium-sized or new companies with good future prospects. In addition to the increasing number of start-up companies and SMEs requiring public funding, there is a need for investor protection for those who wish to invest in these types of companies. The IDX launched an acceleration board for SMEs, including start-up companies, in July 2019. The maximum funds that can be raised by companies listed on the acceleration board is only equivalent to US\$16 million.

This board is a bridge for SMEs and start-up companies before they become part of medium or large companies. The main requirement of this board is the company size which is less than US\$16 million without financial performance requirements. Also, the company should be a limited corporation with proof of good performance potential in the future.

Currently, there are four SMEs and start-up companies listed on the acceleration board. The interesting fact is that all shares listed on the board are Islamic-based stocks from a range of funds raised between US\$800,000 and US\$5.8 million.

The market has been eagerly awaiting the existence of the acceleration board because it will encourage supply-side growth in the Indonesian Islamic capital market. Thus, the Indonesian Islamic capital market becomes a complete market and carries the principle of equality for all market players.

“The market has been eagerly awaiting the existence of the acceleration board because it will encourage supply-side growth”

Indonesia is one of the countries with the fastest-growing start-up companies in the world. With the acceleration board, it will make it easier for them to seek public funding through the Islamic capital market.

Irwan Abdalloh is the head of the Islamic Capital Market Division at the Indonesia Stock Exchange. He can be contacted at irwan.abdalloh@idx.co.id.



International
Islamic Trade
Finance Corporation



We advance trade,

to improve lives.

“ Vision

ITFC is the leading provider of trade solutions for OIC Member Countries' needs

Mission ”

ITFC is a catalyst for trade development among OIC Member Countries and beyond

The International Islamic Trade Finance Corporation (ITFC) is a member of the Islamic Development Bank (IsDB) Group. Commenced operations in January 2008, ITFC has provided more than US\$51 billion of trade financing to OIC Member Countries, making the Corporation the leading provider of trade solutions for OIC Member Countries' needs. With a mission of being a catalyst for trade development among OIC Member Countries and beyond, the Corporation helps entities in Member Countries gain better access to trade finance to support their critical sectors; and provides integrate programs: capacity building and trade development, which would enable them to successfully compete in the global market.



SPIN-OFF

GREATER CLARITY TO INDONESIA'S SHARIAH SPIN-OFF PROCESS

Shariah insurance in Indonesia is currently sold through a 'window' of conventional insurers or by stand-alone Shariah insurers. Insurance Law 40, enacted in 2014, stipulates that insurers are required to 'spin off' their windows when either their Tabarru' and participants' funds reach 50% of total aggregate funds, or by October 2024, whichever occurs first. This requires the creation of a stand-alone Shariah insurer or the transfer of the portfolio to an existing Shariah insurer, as stipulated by Regulation No 67/POJK.05/2016 (POJK 67). BRIAN COLGAN and FARZANA ISMAIL delve further.

Since the release of these regulations, there has been some ambiguity around many aspects of the spin-off requirements, including foreign shareholding limits, capital requirements and the ability to utilize shared services. However, in November 2019, the Financial Services Authority or Otoritas Jasa Keuangan (OJK) issued a draft regulation to update POJK 67 (the draft regulation) to provide clarity. There is no indication on when the draft regulation will be enacted.

Foreign shareholding limits

In January 2020, the government enacted Government Regulation PP No 3/2020 to clarify that if a 'grandfathered' insurer spins off its Shariah window, then the new Shariah company will also be grandfathered with the same limit on foreign shareholding as the conventional insurer. Grandfathered insurers are companies which had over an 80% foreign shareholding prior to August 2018 when a cap of 80% on foreign ownership of non-listed insurers came into effect. Grandfathered insurers are exempt from this maximum foreign ownership restriction. However, PP No 3/2020 does not eliminate a foreign insurer's need to have a domestic joint-venture partner after the spin-off.



THE ISLAMIC CORPORATION FOR
THE INSURANCE OF INVESTMENT
AND EXPORT CREDIT

IsDB



مجموعة البنك الإسلامي للتنمية
Islamic Development Bank Group

ICIEC is the only
multilateral export
credit & investment insurance
institution in the world that provides
Shariah compliant
insurance & reinsurance solutions



iciec.isdb.org



ICIEC-Communication@isdb.org

Capital requirements

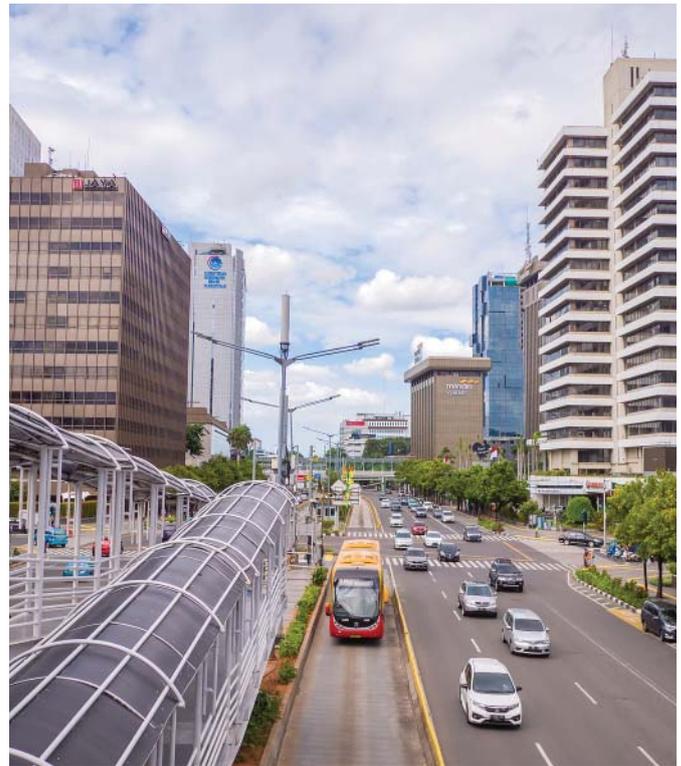
Under the draft regulation, insurers created from a spin-off must have at least IDR100 billion (US\$6.7 million) in capital and IDR50 billion (US\$3.35 million) in equity on establishment. The draft regulation now allows such insurers to hold half of these amounts when established. The capital and equity amounts will need to increase to the full requirements over a two-year period from the date of approval of the spin-off by the OJK. The flexibility of lower initial capital and equity requirements in the first two years does not apply to existing Shariah insurers and this may temporarily create an uneven playing field. This difference in minimum capital requirements gives these new Shariah insurers a relative advantage over existing Shariah insurers for two years.

“Smaller Shariah windows may find the spin-off requirement challenging and lack of scale might make it financially unviable for them”

The spin-off process

The draft regulation still requires insurers to submit a separation work plan on the window's divestment but in a format prescribed by the OJK. Shareholders and directors must approve the plan and submit it to the OJK by the 17th October 2020 at the latest. Registrations and approvals for products sold by the window will continue to be valid after the spin-off, reducing disruption in post-spin-off sales.

The draft regulation stipulates that all rights and obligations of the window must be transferred on spin-off. When a portfolio is transferred to an existing Shariah insurer, then any necessary Qard in addition to the assets, liabilities and equity of the Tabarru' and participants' funds must also be transferred. A portfolio transfer must be completed within 30 days of receiving regulatory approval — a significant reduction from the one-year timeline under the draft regulation. The requirement to notify each policyholder by letter is replaced by a requirement to announce the spin-off on the company's website. Insurers must also place an announcement in a national daily newspaper published in Bahasa Indonesia for at least three consecutive days starting, at most, 10 days after receiving regulatory approval to spin off. The OJK will revoke the business



license of windows not spun-off by October 2024, so that they cannot continue to do Shariah business, after which the company has a maximum of one year to spin off.

Shared services and human resources

Shared services between the new Shariah company and the original insurer are now permitted for at most three years, subject to the OJK's approval. Shared services include actuaries and other executives but exclude management functions and mandatory bodies. Key responsibilities and risks must remain with the new Shariah entity. A formal agreement covering the scope, purpose, period, knowledge transfer plans and fees, among other things, is required. Companies can hire foreign workers in underwriting, actuarial, marketing and information technology for at most five years, subject to certain conditions. Indonesians must be part of the team if foreign workers are employed to build capacity and transfer knowledge.

Conclusion

Insurers now have further clarity to assess the feasibility of spinning off their Shariah windows with the new draft regulation and PP No 3/2020. They will need to continue reviewing available options and work toward the October 2024 deadline. The regulations have not prescribed what happens to existing Shariah portfolios of companies that do not spin off by October 2024 or after the one-year grace period. Smaller Shariah windows may find the spin-off requirement challenging and lack of scale might make it financially unviable for them. So some may decide to sell their existing portfolio and exit the market. This could give rise to opportunities for existing Shariah entities or newly spun-off entities to acquire these portfolios and grow their business.

Brian Colgan is the head of Life Insurance Consulting, Indonesia. He can be contacted at brian.colgan@milliman.com. Farzana Ismail is the principal and consulting actuary at Milliman. She can be contacted at farzana.ismail@milliman.com. 

Intermediary services & systems solutions to connect the global Islamic financial market responsibly



DD&Co Limited

Sharia'a Compliant Markets
Asset Commodity Facilitation

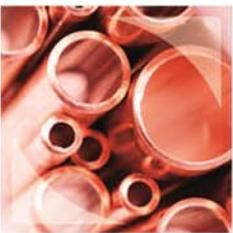
DDGI Limited

Direct Investments & Strategic Partnerships including



ETHOS AFP™

Award Winning Automated Trade and Post Trade Services Platform



DDCAP Group's award winning automated trade & post trade services platform.



Risk Mitigation,
Governance & Financial
Control Capability

Facilitator of Islamic Deal
Connect powered
by **REFINITIV**



Full Straight Through
Processing with Real Time
Documentation



Full member of:



Global Mediacom's Sukuk delisted

The Indonesia Stock Exchange has delisted Global Mediacom's IDR150 billion (US\$10.14 million) Sukuk Ijarah Berkelanjutan I Global Mediacom Tahap II Tahun 2017 effective today, following the maturity of the paper, according to a statement.

Retail Sukuk series SR013 oversubscribed

Indonesia's retail Sukuk series SR013 has so far reached sales of IDR13 trillion (US\$879.15 million) against the initial target of IDR5 trillion (US\$338.14 million), *Republika* reported citing Dwi Irianti Hadiningdyah, the director of Shariah financing at the Ministry of Finance's Directorate General of Budget Financing and Risk Management. The offering period for the retail Sukuk remains open until the 23rd September 2020.

BI maintains rate

Bank Indonesia (BI) has decided to maintain the BI seven-day reverse repo rate at 4%, the deposit facility interest rate at 3.25% and the lending facility interest rate at 4.75%, confirmed a statement. The central bank has also extended the period of the provision for the easing of the rupiah statutory reserve requirement by 50bps for banks channeling MSME credit and export-import and non-MSME credit for priority sectors stipulated in the National Economic Recovery program, from the 31st December 2020 to the 30th June 2021.

Jamkrindo Syariah signs financing agreement

Jamkrindo Syariah has signed a working capital financing guarantee agreement with 10 Islamic banks as part of the National Economic Recovery program aimed at encouraging the recovery of MSMEs, *Republika* reported.

In early July, the Indonesian government mandated Jamkrindo Syariah and Asuransi Kredit Indonesia to provide guarantees to banks that provide working capital loans to MSMEs by giving the two state-owned companies a budget of IDR5 trillion (US\$336.77 million) to carry out the task.

Indonesia lists Sukuk

The Indonesian government's five sovereign Shariah securities issued in May 2019, October 2019, May 2020, July 2020 and September 2020 have been listed on the Indonesia Stock Exchange.

According to a statement, the five reopenings carry a total issuance value of IDR9.5 trillion (US\$639.86 million) and will mature in May 2033, October 2024, May 2023, October 2046 and March 2021 respectively.

Plans to expand BI's role

A panel of experts, including from the country's Hajj Fund and Islamic finance academic circle, has made recommendations to the Indonesian parliamentary committee overseeing the drafting of a central bank law amendment to expand Bank Indonesia (BI)'s mandate as a central bank to include overseeing economic growth while maintaining its independence, according to Reuters.

The suggestions include affording ministers voting rights in monetary policy reviews and allowing the central bank to fund fiscal deficits, activities analysts are concerned may diminish BI's independence. The committee is expected to present the draft law for a parliamentary vote before the 9th October, and it would be proposed to the government if approved.

Wijaya Karya to issue Sukuk

Construction company Wijaya Karya is looking to issue Sukuk and conventional bonds worth a total of IDR5 trillion (US\$337.15 million) in stages starting in the fourth quarter of 2020, *Investor Daily* reported.

Aneka Gas Industri to issue Sukuk Ijarah

Aneka Gas Industri is looking to issue Sukuk Ijarah worth up to IDR205 billion (US\$13.81 million) through its Sukuk Ijarah Berkelanjutan II Aneka Gas Industri Tahap II Tahun 2020 public offering which has an indicative target of IDR1 trillion (US\$67.35 million), according to a statement.

The Sukuk facility will have a tenor of 370 days and is expected to mature on the 12th October 2021. Aneka Gas Industri

has appointed Sucor Sekuritas as the underwriter.

CIMB Niaga's Sukuk Mudarabah rating affirmed

PEFINDO has affirmed the 'idAAA(sy)' rating on CIMB Niaga's Shelf Registration Sukuk Mudarabah I/2018 on the basis that the issuer will be able to meet its long-term financial commitments under the Shariah financing contract, according to a press release.

Bank Rakyat Indonesia converts assets

As at the end of July 2020, Bank Rakyat Indonesia (BRI) has converted 84.4% of its assets in Aceh to become Shariah compliant in the form of Bank BRI Syariah since beginning the conversion process in mid-2019, reported *Republika*. Over the same period, Bank BRI Syariah, which inaugurated a regional office in Aceh Province on the 14th September, converted IDR9.7 trillion (US\$653.25 million)-worth of financing and collected IDR5.8 trillion (US\$390.6 million)-worth of third-party funds from the province.

Indonesia's Sukuk oversubscribed

The Indonesian finance ministry has raised IDR9.5 trillion (US\$639.78 million) from its Sukuk auction conducted on the 15th September 2020 featuring five reopenings, according to a statement.

The auction generated IDR20.79 trillion (US\$1.4 billion) in bids while the Sukuk papers have maturity dates ranging from the 2nd March 2021 to the 15th October 2046.

BSM collaborates with MUF

Bank Syariah Mandiri (BSM) has established a synergy with Mandiri Utama Finance (MUF) to expand its vehicle ownership financing services with a Shariah scheme, *Republika* reported.

Sarana Multigriya Finansial channels financing

Sarana Multigriya Finansial has channeled financing for Shariah housing credit worth

IDR500 billion (US\$33.47 million) with a replacement financing scheme based on the Mudarabah Muqayyadah concept to Bank DKI, according to a press release.

The signing of an agreement between the two companies was carried out on the 10th September 2020 in which the refinancing was established to encourage the acceleration of the National Economic Recovery program, especially in the housing sector.

OJK launches SIKePO

The Indonesian Financial Services Authority, or Otoritas Jasa Keuangan (OJK), has launched the SIKePO (Sistem Informasi Ketentuan Perbankan Online) mobile application, an online banking terms information system, to support banking stakeholders understand banking regulations, according to a press release.

Aneka Gas's Sukuk on negative watch

Based on its view of high execution risk surrounding the refinancing strategy for Aneka Gas Industri's maturing bonds, Fitch has placed the company's national long-term rating of 'A-(idn)' as well as its outstanding bond and Sukuk programs on rating watch negative.

The rating agency in a statement also confirmed that it has assigned an 'A-(idn)' national long-term rating to the company's proposed second-phase bond issuance of up to IDR100 billion (US\$6.74 billion) under the IDR500 billion (US\$33.71 billion) bond program and second-phase Sukuk issuance of up to IDR205 billion (US\$13.82 million) under the IDR1 trillion (US\$67.41 million) Sukuk program, which have been placed under rating watch negative.

Tifa Finance has new shareholder

Korea Development Bank has acquired an 80.65% stake in Indonesia-based Tifa Finance, which offers both Shariah and conventional financing. According to S&P Global, the deal was concluded on the 8th September 2020 under a stock purchase agreement the Korean bank signed with Dwi Satrya Utama last December.

Korea Development Bank is looking to expand Tifa Finance's focus to include wholesale financing, development

financing and venture capital financing. Tifa Finance currently offers lease financing, consumer financing and factoring.

Polytama Propindo's Sukuk Ijarah listed on IDX

Polytama Propindo's dual-tranche Sukuk Ijarah I Polytama Propindo Tahun 2020 facility worth a total of IDR156.45 billion (US\$10.55 million) has been listed on the Indonesia Stock Exchange (IDX) effective on the 10th September 2020. The Sukuk facilities rated 'idBBB+(sy)' by PEFINDO have tenors of 370 days and three years.

Pegadaian to issue Sukuk

Indonesian state-owned auction house Pegadaian is planning to issue Sukuk Mudarabah Berkelanjutan I Pegadaian Tahap III Tahun 2020 worth IDR835 billion (US\$56.29 million), according to a statement.

The two-tranche Sukuk facility consists of Series A worth IDR704 billion (US\$47.46 million) with a tenor of 370 days and Series B worth IDR131 billion (US\$8.83 million) with a three-year tenor. Danareksa Sekuritas, Mandiri Sekuritas, Indo Premier Sekuritas, Bahana Sekuritas and BNI Sekuritas have been appointed as the underwriters.

PLN's Sukuk Ijarah listed on IDX

Indonesian state-owned power producer Perusahaan Listrik Negara (PLN)'s Sukuk Ijarah Berkelanjutan IV PLN Tahap I Tahun 2020 facility has been listed on the Indonesia Stock Exchange (IDX) along with conventional bonds, according to a bourse filing.

The five-series Sukuk facility has a total nominal value of IDR376.5 billion (US\$25.37 million).

OJK and LPS renew cooperation

Indonesia's Financial Services Authority, or Otoritas Jasa Keuangan (OJK), and Deposit Insurance Agency, or Lembaga Penjamin Simpanan (LPS), have signed a new MoU renewing their cooperation to facilitate and optimize the handling of banking issues to maintain the stability of the financial system, especially during the COVID-19 pandemic.

The new agreement covers the implementation of the duties of OJK and LPS including the exchange of data, banking supervision, implementation of deposit guarantees as well as handling of banks and placement of LPS funds to banks amid the pandemic, among others.

Bank Muamalat to raise funds

Bank Muamalat Indonesia is looking to raise a minimum of IDR50 billion (US\$3.38 million) for the cash Waqf-linked Sukuk in Aceh together with Bank BRI Syariah and Bank Syariah Mandiri, Republika reported quoting Bank Muamalat's corporate secretary, Hayunaji.

Sarana Multi Infrastruktur's Sukuk delisted

The Indonesia Stock Exchange has delisted Sarana Multi Infrastruktur's IDR423 billion (US\$28.63 million) Sukuk Mudarabah Berkelanjutan I Sarana Multi Infrastruktur Tahap III Tahun 2019 Seri A facility effective the 8th September 2020, following the maturity of the paper, according to a statement.

BSM and Repower to offer Islamic home financing

Bank Syariah Mandiri (BSM) has signed a cooperation agreement with housing developer Repower Indonesia Asia to offer home ownership financing based on Shariah principles, Republika reported.

The Griya Berkah product offers home ownership financing starting from IDR300 million (US\$20,304) to a maximum of IDR5 billion (US\$338,399) for landed houses and apartments.

OJK admits companies into Shariah securities list

Indonesia's Otoritas Jasa Keuangan (OJK) or the Financial Services Authority has admitted the shares of eight different companies into its list of Shariah securities following their fulfillment of the regulator's Shariah securities criteria, confirmed separate statements. The companies are Selaras Citra Nusantara Perkasa, Soho Global Health, Planet Properindo Jaya, Grand House Mulia, Morenzo Abadi Perkasa, Rockfields Properti Indonesia, Puri Global Sukses and Kumiamitra Duta Sentosa.



IFN INDONESIA: THE GIANT AWAKENS

Indonesia is an Islamic finance giant the world has long been waiting to awaken, and despite the COVID-19 crisis putting the brakes on economic growth, the unusual conditions this year have not diverted the country's Islamic finance ecosystem from its path of continuous expansion.

With over 225 million Muslim citizens, a new 10-year Islamic finance national masterplan, a dedicated national Shariah finance committee headed by the president himself and a new Hajj fund agency, the future looks bright. IFN Indonesia Forum 2020, held online this year for obvious reasons, was characterized by its tone of optimism and ambition: with regulators, practitioners and observers alike enthusiastic both by the progress that

has been made so far, and the outlook for the coming year.

The first day launched with a keynote address from Arif Baharudin, the assistant minister for financial services and capital market policy and regulation at Indonesia's Ministry of Finance, who was candid about the impact that COVID-19 has had on Indonesia's economy (with a GDP contraction of 5.32%, the lowest since the first quarter of 1999, a decline in international trade and a weakening rupiah) but painted an optimistic picture for recovery.

A new law passed earlier this year has given the government the power to widen its budget deficit beyond the usual 3% of the GDP threshold, and allows the central bank to directly

purchase government bonds, which lays the foundations for a strong and sustained economy stimulus package, along with a variety of tax incentives and bank support programs to boost growth.

Things are already looking up — the equity markets are moving upwards, the rupiah has held relatively steady since August and the yield on government bonds is falling again, indicating a more positive outlook. "Close coordination is key to the success of mitigating risk and maintaining stability in the financial system," explained Arif. "Islamic finance is essential to support the handling of COVID-19, and the government of Indonesia has a strong commitment to developing the Islamic economy and financial market." ☺

DISCUSSION INTRODUCTION

BACK-TO-BASICS: OPPORTUNITIES FOR ISLAMIC FINANCE TO FLOURISH IN INDONESIA

The world has changed. How our industry — Islamic banking, finance and investment — chooses to respond to these changes may be a generation-defining moment. Can Islamic finance in Indonesia use this opportunity to become truly responsible, inclusive and ethical, while at the same time contributing to the country's growth and development? How can we as an industry ensure this is substance over form on a permanent basis? What opportunities do the UN Principles for Responsible Banking offer Islamic financial institutions in Indonesia? How can the core values of Islamic finance be further applied to sustainable and socially responsible finance and investment strategies? What is an accurate assessment of the situation with bank consolidation in Indonesia, and what will be the best course of action for the Islamic commercial banking industry? We ask a respected panel for a new roadmap to success for Islamic banking, finance and capital markets in Indonesia.

YOUR PANEL



HANIM HAMZAH
Regional Managing Partner
ZICO Law Network



AHMAD SHAHRIZAN MOHD SHARIFF
CEO, CIMB Islamic



ANGELINE CHOO
Head of Southeast Asia and Greater
China, S&P Dow Jones Indices



DR HURRIYAH EL ISLAMY
Executive Board Member, Badan
Pengelola Keuangan Haji (BPKH)



NYIMAS ROHMAH
Deputy Director of Islamic Banking
Regulation, Financial Services Authority
of Indonesia



DR SUTAN EMIR HIDAYAT
Director of Islamic Economy Supporting
Ecosystem, National Committee for
Islamic Economy and Finance



BACK TO BASICS

Following on from Arif, IFN Indonesia was delighted to welcome Hanim Hamzah, the regional managing partner at ZICO Law Network, to host an in-depth panel session titled 'Back to Basics', a deep dive on how best to leverage the opportunities for Islamic finance within Indonesia, and how the industry should mobilize in response to recent challenges.

The discussion centered around a number of key pillars: including how Islamic institutions are responding to the generation-defining challenge of COVID-19, how Indonesia is leveraging the growing interest in environmental, social and governance (ESG) investing, how the Halal economy in the country can best be developed and how Islamic social finance such as Zakat is becoming a major contributor to economic improvement.

"According to PwC, Indonesia is projected to be fourth-most powerful economy in the world (after China, India and the US) by 2050," pointed out Dr Sutan Emir Hidayat, the director of the Islamic Economy Supporting Ecosystem at the National Committee for Islamic Economy and Finance. "So yes, the giant is awakening."

The Presidential Regulation 28, issued in February 2020, transformed the National Committee for Islamic Finance to the National Committee for Islamic Economy

"According to PwC, Indonesia is projected to be fourth-most powerful economy in the world (after China, India and the US) by 2050. So yes, the giant is awakening"
 – Dr Sutan



and Finance — an important distinction, and one that broadens the focus to the wider Halal industry. The focus for the new ecosystem is on promoting and strengthening Halal production, strengthening Islamic financial services, optimizing Islamic social finance through tools such as Zakat, promoting Islamic human resource talent on the global stage and harmonizing regulations related to the Islamic economy.

As Nyimas Rohmah, the deputy director of Islamic banking regulation for the Financial Services Authority of Indonesia or Otoritas Jasa Keuangan (OJK), pointed out, although Indonesia has fared rather better through the COVID-19 crisis than many other countries, cash remains king as investors stay wary. "We need to support the real economy, and that



CARRERA LEARNING

BROADEN YOUR KNOWLEDGE ON ISLAMIC FINANCE

Carrera Learning offers an innovative and interactive e-learning platform with online courses, videos, and quizzes.

Register now
and get your
first course for
FREE!

TOPICS:

- **The Basis of Islamic Finance**
- **Islamic Asset Management**
- **Takaful - Islamic Insurance**
- **Sukuk**

- ✓ **Efficient**
- ✓ **User-Friendly**
- ✓ **Cost-Effective**
- ✓ **Scalable**



"Although Indonesia has fared rather better through the COVID-19 crisis than many other



countries, cash remains king as investors stay wary"
 – Nyimas

means we need to maintain the stability of the financial sector," she explained. Consolidation is also on the agenda for Islamic banks. "We want to increase size and capacity, so Islamic banks can be more efficient and gain competitive advantages," said Nyimas. "We also want more Islamic institutions to support the development program, especially in infrastructure financing."

CIMB Islamic CEO Ahmad Shahrman Mohd Shariff, pointed out that Islamic banks in the region have taken a bigger hit during the coronavirus crisis due to their relatively larger exposure to the SME and consumer segments. "There is also a bigger impact on Islamic banks simply due to structural funding," he noted. "Most Islamic banks are funded through the wholesale market. That reliance on the wholesale market needs to be looked at, and needs to be fixed. COVID-19 has pushed Islamic banks to diversify their sources of income, and look at alternative methods of financing."

But Islamic banks are also showing more proactiveness in how they deal with their customers, with a greater obligation to engage in times of trouble. The Zakat element is a key differentiator in times of crisis — according to Shahrman, the collection of Zakat in Indonesia during Ramadan 2020 was up 56% from last year,

"Most Islamic banks are funded through the wholesale market. That reliance on the wholesale market needs to be looked at"



– Ahmad



and the social tools of Islamic finance will be a key focus for the government going forward.

Another notable opportunity is the potential inherent in the country's Hajj fund, Badan Pengelola Keuangan Haji (BPKH), which Dr Hurriyah El Islamy, an executive board member of the BPKH, predicts could be a catalytic engine of change. As at the end of August, the fund stood at a massive IDR140 trillion (US\$9.38 billion), with fresh funds of around IDR10 trillion (US\$670.09 million) coming in each year. It is the only government-related fund allowed to invest abroad, and with a broad investment remit (including Sukuk, foreign exchange, gold, direct investment and "other investments" which basically means — everything else) it has both freedom and influence. Barely three years old (formed back in December 2017), it is now finally starting

"We want to be an engine of change, not only within Indonesia but on the global stage"

– Dr Hurriyah



to ramp up its investment horizons, and things are looking promising. "BPKH is a giant that needs to wake up," said Dr Hurriyah. "We can optimize the use of Islamic financial instruments, enter into partnerships with Islamic banks, direct Musharakah ventures, [and] improve poverty to benefit the people. We want to be an engine of change, not only within Indonesia but on the global stage."

"The market expects more innovation in Shariah compliant funds"

– Choo



Angeline Choo, the head of Southeast Asia and Greater China at S&P Dow Jones Indices, highlighted the tremendous outperformance of Shariah benchmarks, which in the first half, outperformed conventional indices by nearly 10%. Notably within Indonesia, activity among Indonesian fund managers is strong, both active and passive. "The market expects more innovation in Shariah compliant funds, and we are working with issuers to develop more complex products, including Shariah smart beta, applying Shariah filters on equity factors and building Shariah multi-asset products, combining Shariah equity and Sukuk, as well as combining Shariah equity and ESG scores," said Choo.

Overall, the mood was overwhelmingly positive and expectations for the future are high. "I'm very excited about Indonesia," said Ahmad. "It's all about the Islamic communities here. There are 373 Islamic universities, almost 60,000 Islamic schools, 165 Islamic hospitals. These communities are the true supporters of Islamic finance, and they need to start the engine. Indonesia doesn't even need an external market. They just need to get things going internally, and that can be the engine that powers it globally — similar to how China's domestic market fuels its companies to go out and export globally. Indonesia has that potential, it just needs to go out and start the engine."

To hear the full discussion, or to follow up any of the above points in more detail, please visit www.redmoneyevents.com/event/ifnindonesia, where all content is available to view free of charge. ☺ ☺



Enabling Responsible Investments

EQUITIES

Covering 40,000+ stocks; where fund managers can screen equities using different Responsible, ESG and Faith-based Investment guidelines.

FIXED INCOME

A unique, pioneering global Sukuk screening solution. ESG and Green bonds are provided based on ad-hoc arrangements.

REITS

Global listed REITs database that could be screened in accordance with different guidelines and takes into consideration the tenant revenue details.

INDEXES

IdealRatings provides custom-built indexes for Equities and REITs as per the required guidelines and eligibility parameters.

BROKERAGE

The solution houses the ability to screen global equity markets, technical analysis for the markets and listed companies.

FUNDAMENTAL RESEARCH

Custom solution for regional and global buy/sell recommendations catered to our white-labelling customers.

IdealRatings®

info@idealaratings.com
www.idealaratings.com

 /IdealRatings
 /IdealRatings
 /IdealRatings



KEY TAKEAWAYS

I had the honor and privilege of moderating the opening panel with distinguished guests from regulators and market participants. Having this mix is very important so that both sides are well heard, and conclusions can be actioned items. From KNEKS [National Committee for Islamic Economy and Finance of Indonesia], we learned about the institution's focus plans and its four-year roadmap to further enhance Islamic finance in Indonesia.

Otoritas Jasa Keuangan or the Financial Services Authority remains bullish of the tenacity of Islamic finance products to withstand market volatility given Islamic finance's universal value principles and direct link to the real economy. BPKH [Badan Pengelola Keuangan Haji] maintains considerable funds for deployment which will help propel the engine toward transforming Indonesia into a more dominant global player in Islamic finance.



Finally, S&P Dow Jones has reported the outperformance of Islamic products, and regional bank CIMB mentions that while there has been sectoral exposure, overall value-based investing will make Islamic finance products and offerings sustainable in the long run.

Hanim Hamzah is the regional managing partner of ZICO Law Network.

I ndonesia's community-led development of Islamic finance shows us the various ways on how Islamic finance can be used as a tool to empower local communities through effective pooling of resources and the provision of inclusive financing. Mobilizing the economic potential of the various Muslim community groups in Indonesia is key to creating a vibrant Halal economy that can serve both the domestic as well as international markets.

Ahmad Shahrizan Mohd Shariff is CEO of CIMB Islamic.



T he aftermath of COVID-19 may create new opportunities for Islamic finance in Indonesia, particularly with the rise of socially responsible investing and the growing popularity of environmental, social and governance. We are convinced that Islamic finance can be part of the pandemic response through a range of financing instruments well-suited for each stage.

The Shariah framework in Indonesia is robust, with a clear methodology and guidelines, including with Shariah compliance and Shariah screening, which is really helpful when it comes to product development and marketing those products within Indonesia.

However, a restraining factor continues to be the lack of sufficient Islamic finance assets and variety of products for the investor community. There are demands from investors for more Shariah exchange-traded funds and index funds for example.

The panel also discussed the commonality between socially responsible investing and Islamic finance because the principles of Islam basically aim to direct finance to the real economy, promote activity, promote business and therefore to be beneficial for society as a whole.



It would be fortuitous that Islamic finance aligns itself well with social investment criteria, and therefore could fit in an important demand by investors with a preference for this type of impactful investment over the conventional options.

Angeline Choo is the head of Southeast Asia and Greater China, S&P Dow Jones Indices.

KEY TAKEAWAYS

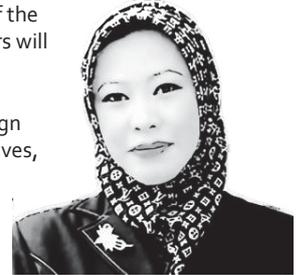
The pandemic has swept away a lot of resources traditionally preserved to facilitate economic growth in a country. When everyone's eyes focus on the pandemic, we seemed to have forgotten that we still need to survive during and after the pandemic and that we need to walk past it. Thanks to REDmoney for holding the event with the theme 'Back-to-Basics: Opportunities for Islamic Finance to Flourish in Indonesia'.

During the discussion, it became apparent that Badan Pengelola Keuangan Haji (BPKH) is a market maker and it is high time that it lives up to the potential it has as the giant of Islamic finance in Indonesia and beyond. With assets under management of over IDR140 trillion (US\$9.39 billion) and the authority to invest beyond Sukuk, BPKH could contribute to the awakening of Indonesia as the largest Islamic finance market by activating its authority to do direct and other investments locally and abroad.

BPKH can boost the market by creating a Hajj ecosystem that addresses three pivotal interests: serving the objectives of the law, profits for pilgrims and ensuring good quality services for them too. In the process, partnership with the stakeholders will be the engine for economic growth within.

Equally as important is for the authorities and decision-makers in the country to work together to have a synergy and align the focus and objectives because there is only one Indonesia and we all should work together to achieve identical objectives, not disparate ones.

Dr Hurriyah El Islamy is an executive board member of Badan Pengelola Keuangan Haji (BPKH).



Our fruitful discussion suggests a harmony between the panelists' vision in accelerating the growth and development of Islamic finance in realizing its huge potential and opportunities in Indonesia. In particular, Islamic financial institutions — with a stronger and bigger capacity while equipped with digitalization and innovation — will continue to take advantage of the flourishing demand for Islamic finance, the Halal industry as well as responsible financing. It is also noted that Islamic finance can play a critical role in supporting the national economy recovery program in combating the global impact of the COVID-19 pandemic.



We expect greater synergy and collaboration would follow after the event. Indonesia's Financial Services Authority (Otoritas Jasa Keuangan) is always open to relevant stakeholders who are interested in fostering the growth and development of Islamic finance in Indonesia. Lastly, we thank IFN for organizing the event, and for the next IFN Forum, perhaps one of the top domestic Islamic financial institutions in Indonesia should be invited to provide insights to be discussed.

Nyimas Rohmah is the deputy director of Islamic Banking Regulation at Otoritas Jasa Keuangan.

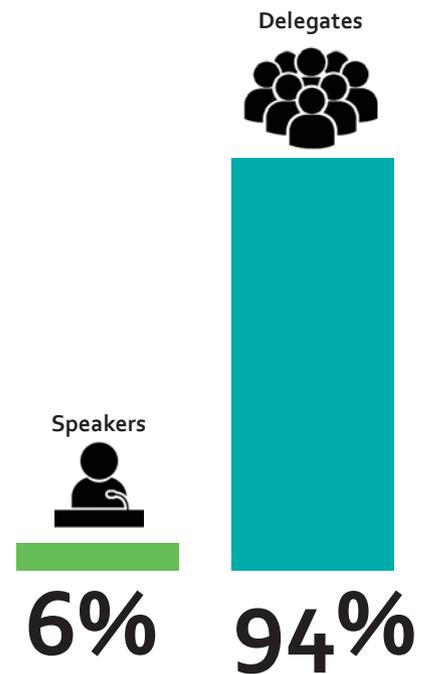
It was a great session where prominent panelists highlighted the strengths and focus areas of the development of the Islamic economy and finance in Indonesia from different perspectives as well as the challenges that need to be addressed to realize the country's vision to be the global hub of the Islamic economy and finance. It was well moderated by Hanim Hamzah, the regional managing partner of ZICO Law Network, and professionally organized by the IFN team.

Dr Sutan Emir Hidayat is the director of the Islamic Economy Supporting Ecosystem at the National Committee for Islamic Economy and Finance (KNEKS), Indonesia.





DELEGATES WHO WOULD LIKE TO ATTEND IFN INDONESIA FORUM 2021 DELEGATE BREAKDOWN



DELEGATE BREAKDOWN (INTERNATIONAL & LOCAL)

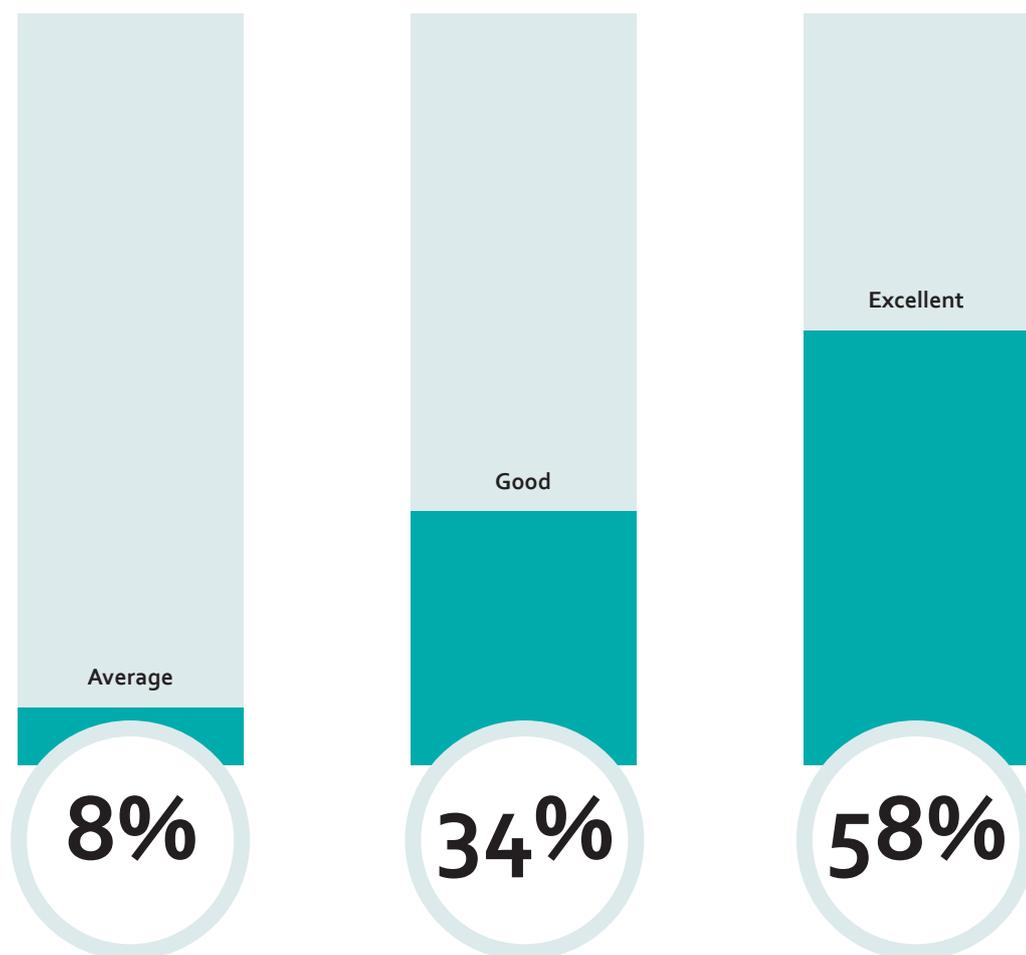


DELEGATE JOB TITLE BREAKDOWN



SESSION EVALUATION

BACK-TO-BASICS: OPPORTUNITIES FOR ISLAMIC FINANCE TO FLOURISH IN INDONESIA



FUNDS, INFRASTRUCTURE, ISLAMIC CAPITAL MARKETS AND RESPONSIBLE FINANCE INITIATIVES IN INDONESIA

Discussing SPV Perusahaan Penerbit SBSN Indonesia III (PPSI-III)'s dollar Sukuk program — including the Green Sukuk — and what it means for the Republic's domestic Islamic capital market. Will we see Indonesian Sukuk issuers undertake restructurings, workouts and re-financings and what are the implications? What is the latest assessment of retail Sukuk in Indonesia and what has been the appetite from investors for these products? Are regulatory Sukuk still a viable option for Indonesian banks seeking to satisfy capital adequacy requirements? What can technology, particularly tools such as Blockchain, offer capital market innovation in Indonesia? What role can pandemic and disaster recovery bonds play and how can Islamic finance solutions feature? How can Sustainable Development Goal 3 — promoting health and wellbeing — be made an achievable priority and what do SDG bonds, and potentially SDG Sukuk, offer? Lastly, we examine the Republic's infrastructure requirements in the coming years and ask what can be funded through Islamic facilities, how can risk be effectively managed and do public/private partnerships offer a viable opportunity?

YOUR PANEL



RONALD RULINDO
*Islamic Finance Coordinator, Indonesia
Deposit Insurance Corporation*



FADLUL IMANSYAH
Director, Principal Asset Management



FAROUK ABDULLAH ALWYNI
*Chairman, Center for Islamic Studies in
Finance, Economics and Development*



IRWAN ABDALLOH
*Head of Islamic Capital Market Division,
Indonesia Stock Exchange*



INDAH BUDIANI
*Executive Director, Indonesia Business
Council for Sustainable Development*

FUNDING THE FUTURE

The second day of the IFN Indonesia Forum explored funds, infrastructure and the Islamic capital markets, with a particular focus on responsible finance initiatives. Moderated by Ronald Rulindo, the Islamic finance coordinator at the Indonesia Deposit Insurance Corporation, the day saw lively debate.

The panel started off with an encouraging discussion around Islamic fund performance, which has seen an exceptional year. "As of August 2020, we have seen a significant increase in Islamic fund volumes in the first half," noted Farouk Abdullah Alwyni, the chairman of the Center for Islamic Studies in Finance, Economics and Development. "Market share was 9.5% in December 2019 and is now 13.4%. Islamic banking is still only around 6.5%. So here, Islamic funds are doing really well, despite the pandemic. At the same time, conventional funds experienced a decline."

Principal Asset Management Director Fadlul Imansyah agreed. "During 2020, despite the difficult situation, the Shariah compliant base funds are now growing more than double. Since 2015, the growth has been about 6–7% and now it's sitting at about 13% growth. That's a big number. A key driver is mainly coming from BPKH, which is currently sitting on around IDR120 trillion (US\$8.04 billion) and outsourcing about IDR20 trillion (US\$1.34 billion) to be managed by Islamic investment managers, which is boosting the AuM [assets under management]. It's good for us to have that kind of growth, and going forward we expect decent growth to continue."

During the pandemic, revealed Irwan Abdalloh, the head of the Islamic Capital Market Division at the Indonesia Stock Exchange, the number of retail investors into the country's Islamic index grew even as the conventional index declined. Trading activity was also higher than under normal conditions, with more than 60% of total trading activity on the Indonesia Stock Exchange (IDX) coming from the Shariah side. More than 79% of newly listed companies on the IDX are

"We need to create products for the retail market, as well as the corporate market"

– Irwan



Islamic now, which is also encouraging news.

Turning to the debt capital markets, it was noted that the government has done an excellent job in the fixed income space and has boosted the supply of Islamic debt securities, which in August accounted for around 17% of total sovereign paper (IDR600 trillion (US\$40.21 billion)), compared to under 10% for corporate debt. "The challenge going forward is whether corporates can issue more Sukuk going forward.

The pandemic situation has made the credit market more difficult, demand is slowing down and the challenge going forward will be to persuade issuers to come back to market," said Fadlul.

Indonesia has ambitious plans to enhance the country's infrastructure, an initiative that requires at least IDR4–5 trillion (US\$268.04–335.05 million) and is likely to increase as the pandemic recovery adds to the bill, and the panel explored a detailed discussion of the SPV Perusahaan Penerbit SBSN Indonesia III dollar Sukuk program — including the green Sukuk — and what it means for the Republic's domestic Islamic capital market. Will we see more green Sukuk, perhaps even from the private sector? "Perhaps the government should issue green Sukuk for retail investors," urged Farouk. "We are also moving towards social Sukuk, to meet the challenges of the pandemic."

Indah Budiani, the executive director at the Indonesia Business Council for Sustainable Development, also pointed out that as companies redefine their business models in response to the growing demand for sustainable business practices, this offers a new opportunity for financial services to support a focus on the UN Sustainable Development Goals and help firms to develop new ways of operating under a green model. "Investors are looking more and more at how companies are able to engage with ESG practices, and that will be a big factor going forward," added Fadlul.

Irwan raised the issue of Waqf, Zakat and social tools, and the challenge of creating

"Investors are looking more and more at how companies are able to engage with ESG practices, and that will be a big factor going forward"

– Fadlul



Islamic products around these that can promote social benefits. "We need to create products for the retail market, as well as the corporate market," he urged.

Digital technology and fintech are vital to increase retail engagement, and tools such as blockchain are offering vital capital market innovation in Indonesia. "If we are looking at Islamic donation models such as Zakat, this is a huge market that has not yet been tapped by the industry," said Fadlul. "We are currently exploring the creation of a digital platform to enter this market.

This way, we can ensure the Islamic finance market is boosted by these funds going forward. It's a long-term, capital-intensive project but it has a huge customer base and could really help Indonesia grow. We need more market players to come in and create digital technology to assist us in this and unlock its potential."

Irwan pointed out that Indonesia requires all Sukuk to be rated, which is a major barrier to SMEs and smaller companies issuing Islamic debt. The IDX and other authorities are now working on blockchain Sukuk, which could be an easier way for SMEs to come to market. "The problem right now is that there is no regulation on this," he said. "The SMEs need funding urgently now. We are waiting for OJK to release regulations on this."

To hear the full discussion, or to follow up any of the above points in more detail, please visit www.redmoneyevents.com/event/ifnindonesia, where all content is available to view free of charge. ☺

KEY TAKEAWAYS

It was discovered that Islamic finance, particularly Islamic capital markets, has an important role in Indonesia. Islamic capital market instruments have been widely used to finance infrastructure development by the government. Indonesia's government is also one of the pioneers in promoting the link between Islamic finance and responsible finance initiatives through the issuance of green Sukuk.

On the private sector side, Shariah compliant stocks also showed good performance even during the COVID-19 pandemic. The intensity of stock trading on the Indonesia Stock Exchange (IDX) is increasing and all the new SMEs that joined the IDX Accelerator Program have registered themselves as Shariah compliant companies.



Moreover, interest to incorporate and develop information technology-based financial instruments such as blockchain Sukuk has been on the rise in recent years. However, there must be some adjustments on the regulatory side to accommodate the further development of such instruments.

Ronald Rulindo is the coordinator for the Islamic Finance Task Force at the Indonesia Deposit Insurance Corporation, Jakarta, Indonesia..

Indonesia's Islamic finance landscape witnessed at least two important developments by September 2020. First, the significant increase of the market share of Islamic funds in 2020 to 13.4% in August 2020 from 9.9% in December 2019. Secondly, the sale of government retail Sukuk (SR013) in August/September 2020 reached IDR25.7 trillion (US\$1.73 billion), breaking a record for the online sale of debt securities. This sale will not only deepen Indonesia's Islamic financial market, but will also broaden the domestic retail investor base.

In addition, the government can also optimize domestic Islamic financial resources for its development efforts in line with the UN Sustainable Development Goals initiatives. The funds then could be used to alleviate poverty, strengthen Indonesia's health sector, develop infrastructure and address the challenges of inequality. The remaining challenge for Indonesia's capital market is the need to stimulate corporate Sukuk issuers. It may consider fiscal incentives and address possible bureaucratic constraints.



Farouk Abdullah Alwyni is the chairman of the Center for Islamic Studies in Finance, Economics and Development.



This session was very important in elaborating competitive advantages and what should be considered for the future development of the Indonesian Islamic capital market.

Irwan Abdalloh is the head of the Islamic Capital Market Division at the Indonesia Stock Exchange.

The spirit of Islamic finance that has a moral objective can address social and environmental problems which can also achieve the UN Sustainable Development Goals (SDGs) in Indonesia. For example, green Sukuk, a socially responsible investment, can finance green energy, resilient infrastructure and environmentally friendly projects as well as livelihood improvement.

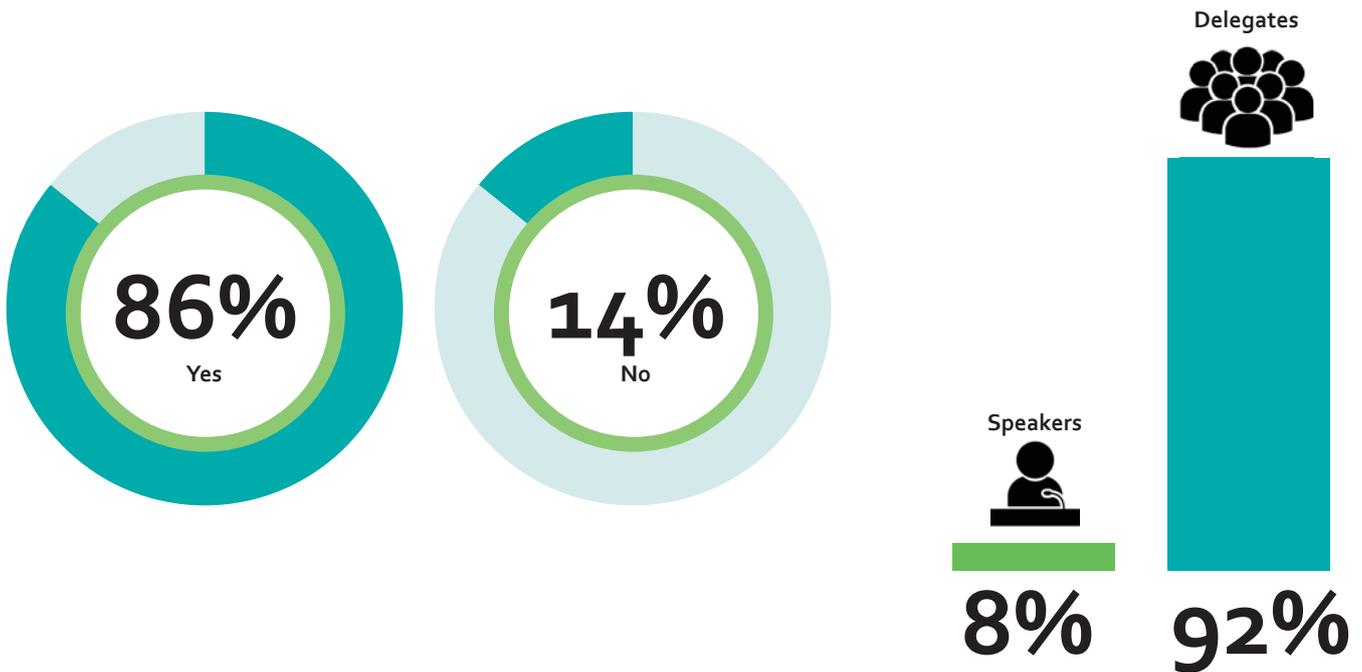
However, Islamic finance products should be more communicated to the private sector to leverage the number of companies using this financing source. For example, in SDG 9 Industry, Innovation and Infrastructure, there are still few micro and small industries that take advantage of loans (SDGs Dashboard, Sept 2020). Islamic microfinance for MSMEs as well as fintech can fill the gap. Nevertheless, considering a loan is a double-edged sword, financial literacy of loan recipients is particularly important.



Indah Budiani is the executive director of the Indonesia Business Council for Sustainable Development.



DELEGATES WHO WOULD LIKE TO ATTEND IFN INDONESIA FORUM 2021 DELEGATE BREAKDOWN



DELEGATE BREAKDOWN (INTERNATIONAL & LOCAL)

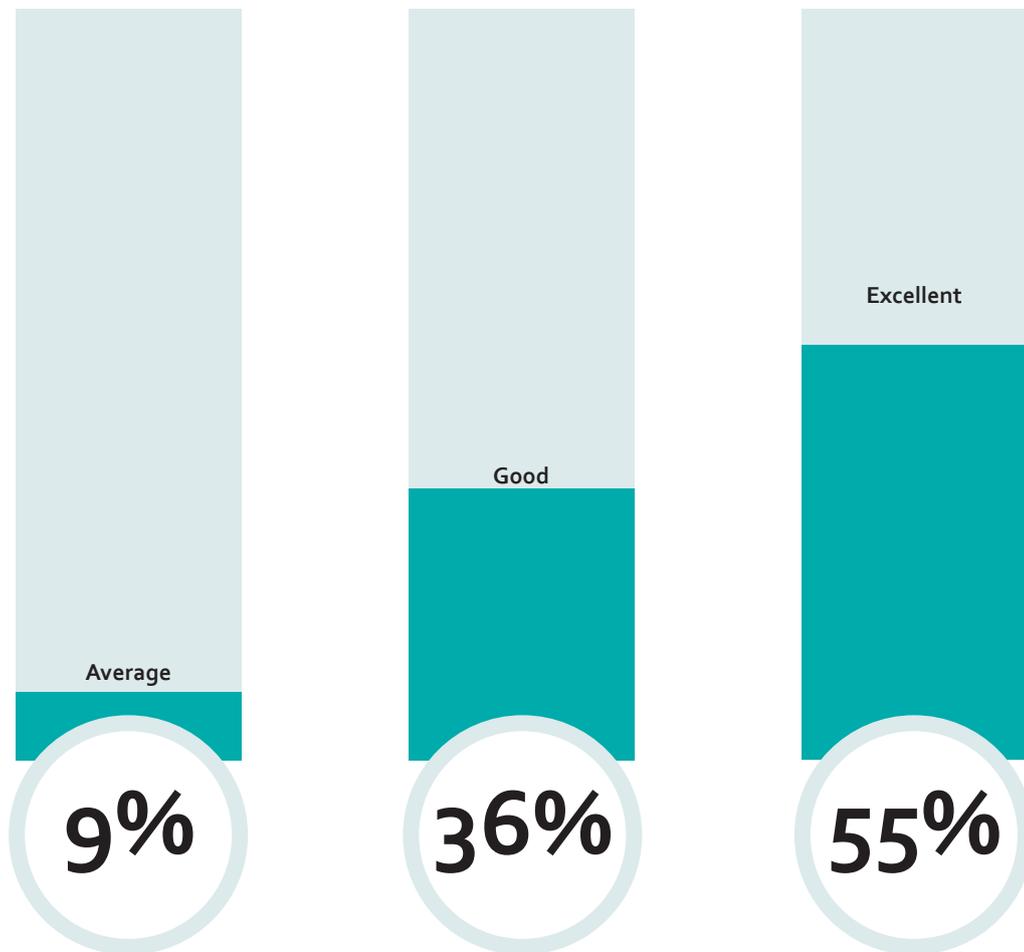


DELEGATE JOB TITLE BREAKDOWN



SESSION EVALUATION

FUNDS, INFRASTRUCTURE, ISLAMIC CAPITAL MARKETS AND RESPONSIBLE FINANCE INITIATIVES IN INDONESIA



DRIVING FINANCIAL TECHNOLOGY AND DIGITIZATION IN THE REPUBLIC

What are the major challenges and opportunities facing Indonesian banks in their digitization programs and strategies for the adoption of financial technology? How is digitization within local banks driving effective segmentation and the development of ever more efficient product delivery channels? What opportunities do Blockchain and Distributed Ledger Technology offer Islamic financial institutions and consumers in Indonesia? Where do crowdfunding and peer-to-peer lending potentially fit in the Indonesian financial system and what can be done to develop and nurture these important components? Where and how can FinTech play a meaningful role in key Islamic financial activities such as Takaful, Zakat and Waqf?

YOUR PANEL



LAWRENCE OLIVER
Deputy CEO, DDCAP Group



HARZA SANDITYO
Co-Founder, Alami Shariah



MATTHEW MARTIN
Founder and CEO, Blossom Finance



ZAINEB SEFIANI
Founder and Director, Carrera Learning

FINTECH AND DIGITIZATION

The third and final day of the event focused exclusively on the opportunities for fintech innovation. Hosted by Lawrence Oliver of DDCAP, the discussion was led by a group of fintech pioneers.

The panel explored the major challenges and opportunities facing Indonesian banks in their digitization programs and strategies for the adoption of fintech and noted the growing digitization within local banks, which is now driving effective segmentation and the development of ever more efficient product delivery channels. "As an intermediary in the Islamic financial markets, we have seen firsthand the benefits of fintech throughout the appalling effects of this pandemic," noted Oliver.

"As an intermediary in the Islamic financial markets, we have seen firsthand the benefits of fintech



throughout the appalling effects of this pandemic"
– Oliver

"The Indonesian population is over 267 million. It has over 355 million mobile phones, 150 million internet and social media users. There are around 200 players in the e-commerce sector and 272 players in the fintech sector. With these numbers, there are tremendous opportunities," noted Zaine Sefiani, the founder and director of Islamic e-learning initiative Carrera Learning. "About 50% of the population that could be banked is unbanked – representing about 83 million people who do not have access to banking. On top of that, we have another 63 million micro SMEs that also do not have access to banking. With these numbers, there are tremendous opportunities for digitalization in the Indonesian market."

But there are also challenges. Indonesia has a blueprint for a new payment system



for 2025, and it throws up some concerns around the misuse of data, cyberattacks, money laundering and so on. And on the education side, how do you persuade employers to educate their employees to cope with this rapid shift toward digital processes?

"About 50% of the population that could be banked is unbanked – representing about



83 million people who do not have access to banking"
– Zaine

"We have already seen in other markets the efficiencies that can be added through digitization," urged Matthew Martin, the founder and CEO of social impact investment platform Blossom Finance. "The opportunity to increase financial inclusion using digital methods is tremendous. The challenges though, are really structural and cultural in nature. The incentive structure and the organizational structure of non-digital financial institutions make it very hard to move

forward and align priorities to embrace digitization unless you have a top-down decision-maker who is really prepared to shake things up. But COVID-19 is now forcing that to happen — there is no choice now. Digital banking technology has been around for over a decade, there are plenty of good vendors in the market. It just requires an internal cultural change, and that needs strong leadership."

"Digital banking technology has been around for over a decade, there are plenty of good vendors in the market. It just requires an internal cultural change, and that needs strong leadership"



– Martin

To hear the full discussion, or to follow up any of the above points in more detail, please visit www.redmoneyevents.com/event/ifnindonesia, where all content is available to view free of charge. 😊

KEY TAKEAWAYS

Digitization in the financial industry is a key factor to achieve a broader financial inclusion in Indonesia, with the geographical and demography challenges faced. Islamic financial institutions in Indonesia, especially the existing ones, can catch up on their market penetration by scaling their business through leveraging technology with the current social and economic changes which are in favor of Islamic financial institutions. Islamic fintech has sprung up in Indonesia and hopefully will soon blossom and play a big role in digitization. A big opportunity awaits in terms of collaboration (instead of competition) between existing Islamic financial institutions (Shariah banks, insurance and financing companies and such) with Islamic fintech since the market is also massive and growing. Government support will be essential in the push for digitization for Islamic financial institutions through its policies and regulations; continuous coordination with stakeholders is extremely important.



Harza Sandityo is the co-founder of Alami Shariah.

For many years, digitization of Indonesia's financial institutions has faced barriers that are cultural and structural in nature rather than technological or legal. COVID-19-related restrictions are acting as the 'forcing-function' to finally push through those barriers.



Matthew Martin is the founder and CEO of Blossom.



DELEGATE BREAKDOWN (INTERNATIONAL & LOCAL)

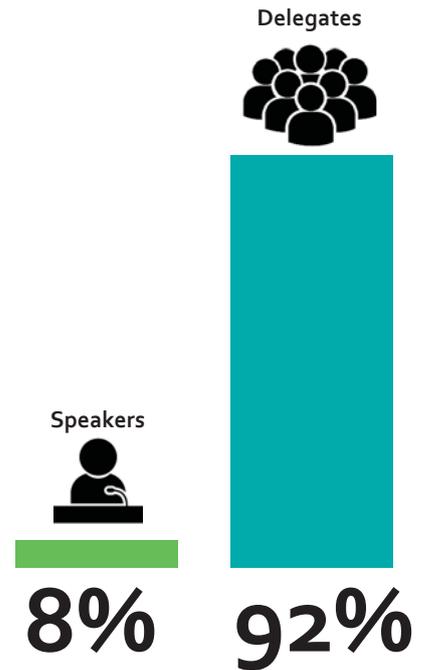


DELEGATE JOB TITLE BREAKDOWN



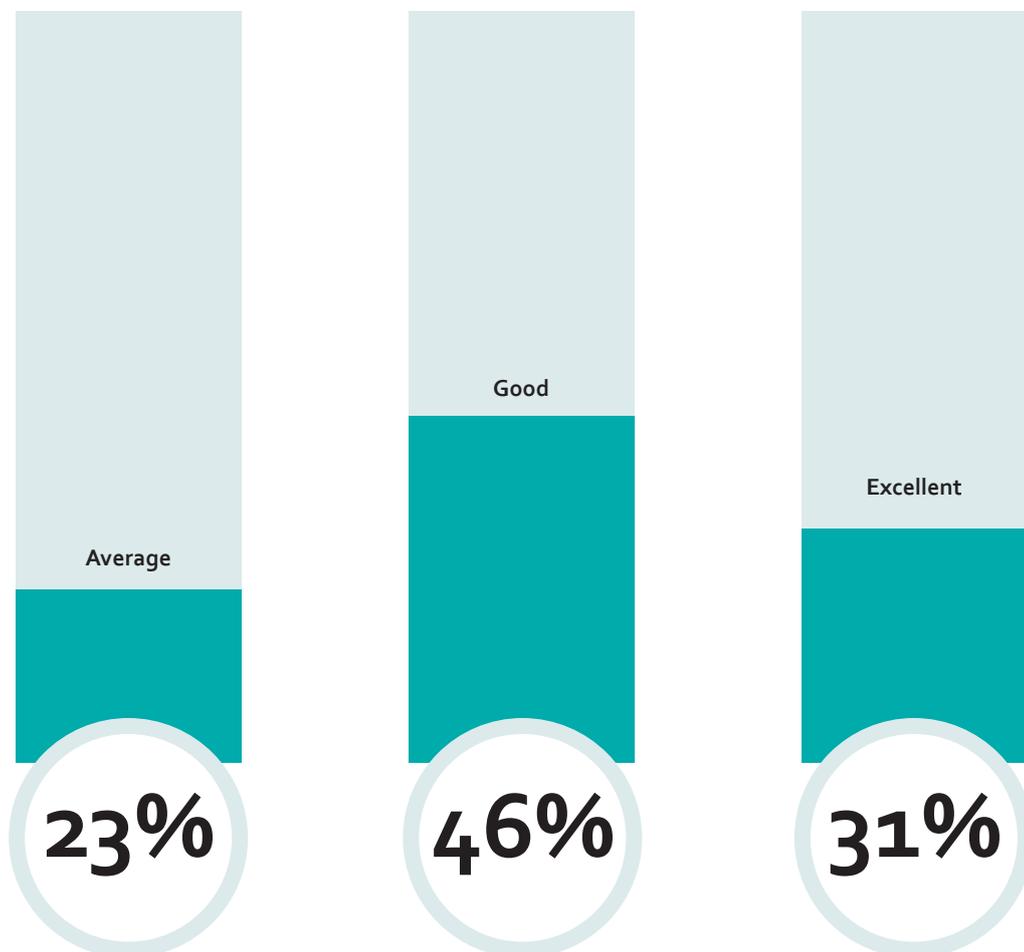
DELEGATES WHO WOULD LIKE TO ATTEND IFN INDONESIA FORUM 2021

DELEGATE BREAKDOWN



SESSION EVALUATION

DRIVING FINANCIAL TECHNOLOGY AND DIGITIZATION IN THE REPUBLIC



121 Advisor	Ibriz	Sahid Polytechnic
90 North Real Estate Partners	IBTN Group	San Beda University
ACF - Assadaqaat Community Finance	ICD	Saracens
Ahmed Draya Adrar University	ICIEC	Saturna
Ahmed Raji & Co	ICLA Legal & Corporate Service	Saudi Aramco
Airestec	IdealRatings	SBI Ventures Malaysia
Al Huda CIBE	Ihec Carthage	Secretary General House Of Regional Re
ALAMI Fintek Sharia	IIUM	Selim Megatama Indonesia
Ali Budiardjo	IKPIA Perbanas	Sharp Opinion Business Consult
Alliance Investment Bank	Independent	SMBC Nikko
Alliott Hadi Shahid CA	Indo Premier Sekuritas	SMP & Co
alumnia.id	Indonesia Exim Bank	Social Islami Bank
Amana Bank	Indonesia FSA	SpeechWorkers
Amundi Aalam	Indonesia Print Media Association	Squire Patton Boggs
Arka Projects	INFOPRO	Standard Bank
Badan Pengelola Keuangan Haji	International Islamic University	Strategic Capital Global
Bank Islam Brunei Darussalam	IPB University	Sucofindo (Persero)
Bank Mizuho Indonesia	IPC Corporate University	TA Securities
Bank Muamalat	Islamic Development Bank Group	Tamweel Africa Holding
Bank Muamalat Indonesia	Istanbul Zaim University	Tanadi Limited
Bank Negara Malaysia	J lee & associates	Tayyab
Barisanco	JAIZ Bank	TBC Health Program - Aisyiyah
Bisnis Indonesia	KDS Global	Tehran Stock Exchange
BLIDA University	Kilpady Consultants Indones	Terreus Capital AG
BNI Syariah	KPKapital	The Hague University
Brick	KSK Group	The Indonesia Business Council for
Bukalapak.com	Kuwait Finance House (Bahrain)	Sustainable Development (IBCSO)
Bylur GmbH	Lembaga Ilmu Pengetahuan	The Participation Banks Association of
Capital Markets Malaysia	Lion Global Investors	Turkey (TKBB)
Carbon Disclosure Project- CDP	Malaysia Digital Economy Co	The Special Relationship
Carrera Learning	Masrab Trading	The Institute of International Finance
Central Bank of Tunisia	Masryef Management House	ThinkCap
CIMB Bank	Maybank Indonesia	Tokio Marine Life Insurance Indonesia
CIMB Islamic	Maybank Syariah Indonesia	Tokyu Land Indonesia
City Pensions	MBT Consulting	Trinity Capital Investment Banking
Coca-Cola	MEPI	Trinity Indonesia
Cognizant Technologies	Millennium Info Solution	UIN Alauddin
Commercial Bank of Ceylon	Ministry of Finance Indonesia	UIN SMH Banten
Commercial Diplomats	Ministry of Foreign Affairs	United Overseas Bank
Coris	MJ Wealth	Universitas Islam Negeri Sumatera Utara
Dana Syariah Indonesia	Monetary Authority Brunei	Universitas Negeri Jakarta
DDCAP Group	Moody's	Universiti Brunei Darussalam
DDGI Representative Office, Kuala Lumpur	MSP	Universiti Tun Abdul Razak
Dict.gov.ph	MUFG Bank (Malaysia)	Universiti Tunku Abdul Rahman
DLA Piper	Nafarara Berdaya	University Malaya
Dubai Islamic Bank	NTT Group	University of Burgundy-France
DWS Investments	O.N.E.E.	University of Dubai
Eiger Trading Advisors Limited	OCBC NISP	University of Salford
Ekokon Nusantara	Offa	University of Sydney
Envol Capital	Okapito	University of Warwick
Erasmus	Oman Arab Bank	UOB Islamic Asset Management
Ernst and Young	Pakistan Mortgage Refinance Company	UOB Malaysia
Eurisgroup	Panca Putra Raharja	UrbanAce
Exim	Paramadina University	Vardanyan, Broitman & Partners
FairFinance	Participation Banks Associatio	Wakaf Insan Mandiri Mulia
Financial Services Authority	Pengyang Asset Management	Western Sydney University
FINEOPOLIS Consulting	Pension Fund Malaysia	Wethaq Capital Markets
First Abu Dhabi Bank	Perbanas Institute	WiX Kapital
Fitch ratings	Pertamina	Xendit
FWU Takaful GmbH	PricewaterhouseCoopers	Yayasan Penabulu
Gobi Partners	Private Bank	Youth Economic group
HHP Law Firm	Rayyanat Najd	ZICO Law
Howard Kennedy	Roosdiono & Partners	
Huriya Gold	S K Kalra & Associates	
IAIN Metro	S&P Dow Jones Indices	
IBA, Karachi	Sahabat Alif Indonesia Foundation	