

Will Bank Syariah Indonesia be a game-changer for the Islamic finance industry?



INDONESIA

By Irwan Abdalloh

Since the beginning of February 2021, Bank Syariah Indonesia (BSI), the merged bank of three state-owned Islamic banks, has been legally established in Indonesia. The BSI became the biggest Islamic bank and is included in the 10 largest banks in terms of assets in Indonesia.

In the last five years, the development of the Indonesian Shariah economy has experienced encouraging growth marked by the continuous improvement of Indonesia's ranking at the global level.

This cannot be separated from the role of the government which consistently encourages the acceleration of the development of the Islamic economy in all sectors, one of them by merging the three state-owned Islamic banks.

The establishment of the BSI will affect the development of the Islamic economy in Indonesia. As the biggest Islamic bank, the BSI has competitive advantages in

terms of size and network of branch offices. As per December 2020, the asset of the BSI are worth almost IDR240 trillion (US\$16.76 billion), equivalent to 40% of total Islamic banking assets in Indonesia, and it has almost 1,241 branch offices or 51% of the total number of branches of Islamic banks.

The market capitalization of the BSI has become one of the 10 biggest market capitalizations in the Indonesia Stock Exchange. Therefore, the market has high expectations that the BSI will be able to accelerate Indonesia's Shariah economic growth.

In particular, the president of the Republic of Indonesia, Joko Widodo, in his speech when inaugurating the establishment of the BSI, hoped that the BSI can become:

- An inclusive and universal Islamic bank
- A digital-based Islamic bank
- An attractive Islamic bank for the millennial generation, and

- A competitive Islamic bank in terms of products and services.

The high expectations for the BSI are very reasonable because the potential for Indonesia's Shariah economy is still huge. The majority of Indonesia's population is young and its area is very large, thus the use of technology is a must.

So far, Islamic banking is synonymous with the older generation, so enabling the BSI to attract the millennials is a challenge that must be faced.

In addition, Indonesia's economic growth, which is largely supported by SMEs with a contribution of around 60.3% of total GDP, is another challenge.

Indonesia has many micro Shariah financial institutions, therefore the BSI must be able to synergize with them so that their business will not be disrupted but instead they can grow together. ☺

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.

Crucial for Islamic intermediaries to have access to Banca d'Italia payment systems



ITALY

By Stefano Loconte

Gross settlement systems represent a useful type of payment involving a huge amount of liquidity that requires a sophisticated level of efficiency and security so as to assure financial intermediaries that the liquidity circulates properly within the financial system.

The Trans-European Automated Real-time Gross settlement Express Transfer (TARGET2) is a payment system created by the EU to distribute liquidity efficiently and to ensure the complete harmonization of services and their costs in all European countries.

Based on a single shared platform created by the central banks of France,

Germany and Italy, this system settles payment orders from European banks and financial intermediaries.

In the Italian component, the operational and contractual relationships with these intermediaries are managed by Banca d'Italia.

With regards to Islamic intermediaries, it is quite difficult to find a perfect compatibility between the structure of this kind of payment system and the Shariah principles.

Also, the possibility to open the access to this kind of payment system for Islamic intermediaries strongly depends on the result of an investigation process.

In fact, the access requirements to TARGET2 allow direct participation

of Islamic banks as long as they have obtained the license to exercise banking activities in Italy as an Islamic bank or branch of an Islamic bank set up in another country.

As such, both the authorities and the intermediaries concerned should evaluate in advance the compliance level with Shariah principles before obtaining access to TARGET2.

Though TARGET2 is useful for the transactions of Islamic finance intermediaries, it is of utmost importance to find a solution to guarantee their access to this system. ☺

Stefano Loconte is the managing partner at Loconte & Partners. He can be contacted at stefano.loconte@studioloconte.it.