

Interview with Dr Sutan Emir Hidayat, the director of Islamic financial education and research at the National Islamic Finance Committee of Indonesia

Why did the government of the Republic of Indonesia establish the National Islamic Finance Committee (KNKS)?

Islamic finance in Indonesia has officially existed for over two decades. Despite its strong year-on-year growth, the overall size of the industry and its impact on the national economy remain modest compared to conventional finance. For example, the market share of Islamic banking is sticking around 5–6% even though Indonesia is the largest Muslim country. In addition, lots of potential business opportunities can be explored in the Indonesian Halal industry. In order to realize those potential business opportunities, the government established the KNKS to synergize the efforts made by all Islamic economy stakeholders in the country.

What are the main roles of the KNKS?

According to Presidential Decree No 91/2016, the main roles of the KNKS are the following:

1. Make policy and strategy recommendations
2. Coordinate the planning and the implementation of strategic programs
3. Monitor and evaluate the implementation of policy and strategic programs
4. Conduct research and study on statutory and relevant policy and formulate the suggestions of its development
5. Conduct the coordination, socialization, promotion, education and advocacy of Islamic finance
6. Formulate the development of human resources
7. Promote research and innovation for product development of Islamic finance, and
8. Look for solutions to various strategic problems in the development of Islamic finance.

However, on the 5th February 2018, the president of the Republic of Indonesia, who is also the chairman of the KNKS, instructed Islamic economy stakeholders to prepare the Master Plan for the Indonesian Islamic Economy (MEKSI) which covers not only Islamic finance but also other sectors of the Halal industry. The master

plan has been finalized and was launched in May 2019. With the existence of the MEKSI, the KNKS is also mandated to coordinate the implementation of the MEKSI.

What is the MEKSI's vision and steps taken to realize its target?

The MEKSI focuses on the development of real sectors of the Islamic economy during the 2019–24 period. The master plan has a vision of “The Realization of an Independent, Prosper and Ethical Indonesia by being one of the World’s Prominent Centers of the Islamic Economy”. In order to realize the vision, the MEKSI has four main targets namely:

1. Upgrading the business scale of the Islamic economy
2. Improving Indonesia’s ranking in the Global Islamic Economy Indicator
3. Enhancing economic independency, and
4. Increasing the Welfare Index.

In order to achieve those four main targets, the MEKSI has identified four main strategies, namely:

1. Enhancement of the Halal value chain
2. Enhancement of Islamic finance
3. Improvement of micro, small, and medium enterprises, and
4. Enhancement of the digital economy.

Those four strategies are supported by four basic strategies:

1. Enhancement of Fatwas, regulation and governance
2. Development of research and development capacity
3. Enhancement of quality and quantity of human resources, and
4. Enhancement of public awareness and literacy.

Given the important role of the KNKS in the implementation of the MEKSI, what are the main programs or ‘the quick wins’ of the KNKS in 2019 in order to successfully implement the MEKSI?

The KNKS has 13 quick wins as the priority programs across its five directorates as follows:

1. Creating an Islamic social security program through the conversion of conventional social security funds

2. Establishing a world-class Takaful operator
3. Coming out with a big-scale Islamic bank (priority will be for state-owned Islamic banks)
4. Preparing a draft of the Indonesian Islamic Finance Act
5. Coming out with a Zakat platform
6. Coming out with an Islamic cooperatives (BMTs) platform
7. Conducting an Indonesian Zakat-friendly campaign
8. Creating a data and knowledge center for the Indonesian Islamic economy
9. Publishing an insight newsletter
10. Developing an Islamic digital payment system
11. Creating a Fatwa portal
12. Establishing a Halal marketplace, and
13. Conducting a national Halal preference survey.

Can you share more details about the Islamic social security program? What will it entail — will it follow the Malaysian model? When can we expect it to be launched?

The program is similar to the Malaysian Employees Provident Fund’s process in converting conventional social security programs into a Shariah compliant scheme. This year, we are targeting the finalization of the feasibility study and policy recommendations.

Establishing a world-class Takaful operator is one of your 13 quick wins. Does this mean the government is looking at establishing a new Takaful operator or looking at consolidating current market players, similar to the long-standing plan for an Islamic megabank?

We are still evaluating both options which are either establishing a new Takaful operator or looking at consolidating the current market players. Based on our research, we will choose the most feasible option.

Coming out with a big-scale Islamic bank (priority will be for state-owned Islamic banks) — How far along is this plan? Has any progress been made?

We have done an evaluation on several options related to this plan. We find that

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upscaling the existing Islamic banks is easier than the merger option. The upscaling will be achieved through more involvement of existing Islamic banks in government projects.

On the preparation of a draft of the Indonesian Islamic Finance Act, can you share more details about this Act? What is the purpose?

Currently, we are still preparing the research on the urgency of the Indonesian Islamic Finance Act. For example, we want to address the long-standing problem of taxation for Islamic financial products. In the future, we expect the Act will be used as a legal basis for blended finance in the country which is expected to support the infrastructure development.

Coming out with a Zakat platform, will this be a digital platform? Will the government be working with existing platforms or is it looking to build its own proprietary platform?

Yes, the Zakat platform will be a digital platform. The platform has three functions. First, it functions as the national Zakat data integration platform. This is very important for the benefit of developing a national Zakat policy. Second, it aims to increase the accountability of Zakat institutions. Third, a platform facilitates the Muzaki (Zakat payer) to pay his or her Zakat digitally. For the second and third functions, the KNKS will collaborate with available platforms which are now being used by Zakat management organizations. For example, BAZNAS (the state Zakat organization) has its own system called SIMBA, while Registered LAZ (the public Zakat organization) generally develops its own platform or uses third-party platforms. On the other hand, many e-commerce and social crowdfunding platforms also have Zakat payment features on their services. Aspects that need to be strengthened are more on the standardization of platform development. With standardization in place, it is expected that data interconnection and good performance reporting can easily be carried out.

Coming out with an Islamic cooperatives (BMTs) platform, will this be a digital platform? Will the government be working with existing platforms or is it looking to build its own proprietary platform? What is the

objective of this BMT platform?

The BMT platform will be a digital platform. However, when we are asked whether we will be working with the existing platforms or simply build our own platform, it must be underlined that the platform we want to develop is not like a core system which is already available in the market and many BMTs are already utilizing it. It should be noted that the National Islamic Finance Committee will develop a centralized system that will synchronize and integrate many existing BMT core systems. The objective of this plan is simply to build a central real data management of all BMT institutions nationally, so that the supervisory system of this industry could be run optimally. While realizing this plan, the government will also determine who will operate this system.

Developing an Islamic digital payment system — what is the purpose and when will it be launched? Why is it important for Indonesia to develop an Islamic digital payment system? Who will it target?

The purpose of an Islamic digital payment system is to enhance the digital payment services to Shariah-conscious retail customers in Indonesia. At the moment, the digital technology in Indonesia especially in consumer transactions is now being developed rapidly but it only involves conventional banks and other financial institutions. In this case, the Islamic banks in Indonesia are left one or two steps behind their conventional counterparts. Therefore, with this digital payment system, Islamic financial customers can also enjoy the new world of digital payment, and on the other side we can maintain the market share of Islamic bank assets/funding.

Indonesia is a diverse country with multiple religions being practiced in the Republic. Did any conflicts arise when the current government decided to establish the KNKS?

Alhamdulillah, there has been no opposition from any parties since the KNKS was established in 2016. It is also important to note that the Islamic economy is not only for Muslims. Everyone can participate in the development of the Islamic economy in Indonesia. In fact, at the global level, countries like Brazil and Australia are the key Halal industry players despite them being non-Muslim-majority

countries. Brazil for instance is the largest Halal poultry producer in the world. If non-Muslim countries can grasp the opportunities offered by the Halal industry, why not Indonesia?

You mentioned about improving Indonesia's ranking in the Global Islamic Economy Indicator — what will be your expectation about it?

Indonesia has the potential to be one of the world's key Halal industry players. For example, recently, Indonesia was ranked as the No 1 top Halal tourism [destination] in the world along with Malaysia in the Global Muslim Travel Index of CrescentRating. In addition, the government's support toward the development of the Islamic economy in the country has been improving from time to time. However, Indonesia's ranking in the overall Halal industry still needs to be enhanced. In other words, there is still room for improvement for Indonesia especially in Islamic finance, Halal food, Halal pharmaceuticals and cosmetics and modest fashion segments.

The aforementioned situation occurs due to the history of Islamic economy development in Indonesia. As we are aware, the evolution of Islamic banking and finance in Indonesia is different from other countries such as the Kingdom of Bahrain for instance. In the earlier phase of the evolution, the development of Islamic banking and finance in the Republic was driven by the grassroots movement with little support from the government. However, from time to time, there was significant change in this regard. In the era of [former] president Susilo Bambang Yudhoyono, the development of Islamic economy was declared as one [item] on the national agenda. The Islamic Banking Act was also passed by the House of Representatives during his time.

Now, in the era of President Joko Widodo, the support of the government has been significantly enhanced through the establishment of the KNKS. The establishment of the KNKS has shown that the Indonesian government has full commitment toward the development of Islamic banking and finance. It is expected that with full government support and a strong grassroots movement, Indonesia will be able to enhance its ranking in the Global Islamic Economy Indicator in the near future. ☺