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Part 3. Asian Economies in the Local Context

Introduction

It is our great pleasure to deliver another volume of Research Papers on Asia-Pacific economic issues. Each year we present you multiple points of view on that topic, trying to show how much the processes in Asia & Pacific affect the world economy. After nine years of hosting international scientific conference dealing with that region's affairs, we are still confident that these issues are important not only for the countries of the region, but also for economies worldwide.

This year we have chosen for you 15 articles. All of them where submitted for this year's conference entitled "Asian Economies in the Context of Globalization". Seeing that some authors describe the issues of countrywide importance and others of those having regional or global meaning, we have decided to group them according to the criterion of impact range.

The first chapter – Asian Economies in the Global Context – is a collection of papers on general regionalization or globalization issues. T. Sporek is trying to refresh the view of the globalization processes occurring at the crossroads of economy and politics. M. Bartosik-Purgat is analyzing sources of information about products and services in the light of cross-cultural research. E. Majchrowska is using Regional Comprehensive Economic Partnership case to show the importance of mega-regional blocks in global trade. In addition, we decided to add to this part the articles the subject of which is not so general, but it applies to trade relationships of a global nature. This will be the EU-India trade and investment agreement (G. Mazur), Poland-ASEAN agri-food products trade (K. Kita) or anti-dumping procedures against China under WTO rules (J. Skrzypczyńska).

Articles in the second chapter are – as the title implies – embedded in a regional context. P. Pasierbiak deals with trade regionalization in East Asia. S. Bobowski offers an insight into ASEAN-Japan Economic Partnership. A. Kuropka and A.H. Jankowiak analyse the impact of natural disasters on production networks in the region. As the last in this section we have placed the article about Singaporean Competitiveness Model applied in European economies (M. Żmuda). It may be not strictly connected with Asia & Pacific, but its concept is to transfer Asian experience to Europe at the regional level.

The last chapter – Asian Economies in the Local Context – is mostly about domestic matters of Asian countries. You will find there three articles about China (J. Bogołębska writing about Chinese monetary policy, A. Klimek describing cross-border mergers and acquisitions by Chinese state-controlled enterprises, S. Stępień and A. Sapa showing Chinese pork sector), one about Indonesia (*Development of Islamic banking in Indonesia* by I. Sobol) and one about North Korea (M. Kightley applying game theory in prediction of political changes in that state).

We think it is an interesting set of papers you will find valuable in your studies. We also hope that your scientific interests will continue to be associated with Asia and that is why we invite you to the 10th anniversary conference which will be held at the Wrocław University of Economics in November 2017.

We appreciate your time and consideration, as also time and effort of our peer reviewers. We look forward to the further submissions of interesting papers on Asia & Pacific. Thank you!

Bogusława Drelich-Skulska, Anna H. Jankowiak, Szymon Mazurek

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DEVELOPMENT OF ISLAMIC BANKING IN INDONESIA

ROZWÓJ BANKOWOŚCI ISLAMSKIEJ W INDONEZJI

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Summary: In the last few decades the increasing significance of Islamic banking has been observed. A distinctive feature of Islamic banks is the obligation to conduct operations in accordance with principles of shariah which is the religious law of Muslims. The purpose of this paper is to present the state of development and the specificity of the Islamic banking industry in Indonesia. The reason why this country has been chosen is the fact that it is the most populous Islamic country, yet in comparison with some other Muslim countries the significance of Islamic banking is relatively small there. Thus it is interesting to analyse whether the situation may change in the future. The article uses descriptive and analytical method of analysis, based mainly on scientific literature, market reports and statistical data.

Keywords: Islamic banking, Indonesia, Muslims, shariah.

Streszczenie: W ciągu ostatnich kilku dekad wzrosło istotnie znaczenie bankowości islamskiej. Charakterystyczną cechą banków islamskich jest konieczność przeprowadzania operacji finansowych zgodnie z zasadami religijnego prawa muzułmanów – szariatu. Celem niniejszego artykułu jest zaprezentowanie stanu rozwoju i specyfiki bankowości islamskiej w Indonezji. Wybór tego rynku jest nieprzypadkowy. Mianowicie, Indonezja jest najliczniejszym państwem muzułmańskim na świecie, a mimo to w porównaniu z niektórymi innymi krajami muzułmańskimi znaczenie bankowości islamskiej jest tam niewielkie. Dlatego interesujące jest zbadać, czy sytuacja ta może się zmienić w przyszłości. W artykule zastosowano głównie analizę opisową, opartą na literaturze naukowej, raportach rynkowych oraz danych statystycznych.

Słowa kluczowe: bankowość islamska, Indonezja, muzułmanie, szariat.

1. Introduction

In the last few decades the increasing significance of Islamic banking has been observed. Since 1970s, their assets have been growing dynamically and in the 2nd half of 2014 reached 1476.2 billion USD [Islamic Financial Services Board

2015]. Islamic banks operate in over 75 countries, not only Muslim ones, but also those where Muslim minority live, such as the UK, the USA or France. The reasons why such institutions were established across the world are connected with the neo-revivalist movements among Muslim societies on the one hand and the raising wealth of some Middle East countries on the other. One of the most influential movements was the Muslim Brotherhood, established in Al-Ismailijja (Egypt) in 1928 by Hasan al-Banna. The Muslim Brotherhood criticised interest-based financial system in Egypt and other parts of the Muslim world and argued that since Islam provides its followers with a comprehensive ideological framework for all aspects of life, economic affairs should be also included within that framework. That is the reason why all interest-based activities both in the public and the private sectors should not be allowed [Saeed 1996]. The opinions of Muslim Brotherhood and other Muslim movements found followers in academic world as well as among market practitioners. But if it were not the wealth of the Gulf states, which was the result of oil crisis and the enormous increases in the oil prices, the development of Islamic finance probably would have been much slower. Almost all the Islamic banks that were established in the 1970s were partly or even totally funded by oil-linked wealth. However Indonesia, despite being the largest Muslim country in the world, was relatively slow in introducing Islamic banking. It was almost 20 years after the emergence of the modern Islamic banking in the world that the first Islamic bank was founded in this country. Until now, the significance of Islamic banking in Indonesia, in comparison with Iran, Malaysia and the Middle East countries, is rather small. In 2014, assets of Islamic banks operating in Indonesia accounted for 1.39% of total global Islamic assets, which gave Indonesia 9th place in the world ranking. The first three places were taken by Iran (40.21% share), Kingdom of Saudi Arabia (18.57%) and Malaysia (9.56%) [Islamic Financial Services Board 2015].

2. The essence of Islamic banking

A distinctive feature of Islamic banks is the obligation to conduct operations in accordance with principles of shariah, which is the religious law of Muslims. The basic principle applied by Islamic financial institutions is the prohibition of usury (arab. *riba*). It also constitutes the main difference between Islamic banks and conventional financial institutions, which base all their operations on interest rate. The prohibition of *riba* has its origins in the holy book of the Muslims – the Koran. The hadiths, which describe the life and actions of Muhammad, the Messenger of Allah, also state that *riba* is condemned. However, neither the Koran nor the hadiths define what *riba* is. According to most Islamic economists usury is any sort of increase over the principal amount [Hasanuz Zaman 2001]. So it has a different meaning than in contemporary Western civilisation, where usury is defined as the practice of charging excessive, unreasonably high interests on loans.

Apart from the prohibition of *riba*, Islamic financial institutions must operate in accordance with other principles. They must avoid contracts that involve excessive risk (*gharar*), that is, transactions where a significant element of uncertainty exists. That is one of the reasons why Islamic banks should not trade in derivatives.

It should be also mentioned that all economic transactions of Muslims should support those practices or products which are not considered *haram*, or unlawful, to Islam. Thus investments in areas such as alcohol, casinos, cigarettes are prohibited.

Since *riba* is prohibited in Islamic finance, instruments typical for conventional banking are not allowed either. They must be replaced by other types of products. Financial tools of Islamic banks can be divided into two groups: profit and loss sharing (PLS) instruments and cost-plus instruments.

The basic principle of PLS instruments is that instead of lending money at interest, the bank forms a partnership with the borrower, sharing in a venture's profits and losses. Hence unlike an interest-based product, in the case of PLS modes of finance there is no guaranteed rate of return on the investment since income depends on the profit earned by the partnership company and may possibly result in losses. *Mudaraba* and *musharaka* are the most common PLS contracts. In the *mudaraba* contract one party of the agreement (*rabb-ul-maal*) provides capital finance for a specific venture indicated by the other party, called *mudarib*. *Mudarib's* contribution to the venture is professional and technical expertise, as well as the management of the business. If the venture brings profits, they are shared according to a pre-agreed ratio between *rabb-ul-maal* and *mudarib*. Losses however are entirely borne by the *rabb-ul-maal*. *Musharaka* on the other hand is a form of joint venture where two or more parties combine their capital and labour together to share the profits, enjoying similar rights and liabilities. The profits resulted from such a venture are shared according to a pre-agreed ratio between the parties of *musharaka*, while losses are borne in proportion to contributed capital [Sobol 2012].

The second group of instruments includes such modes of finance as *murabaha*, *salam*, *istisna* and *ijara*. *Murabaha* (a cost-plus, mark-up contract) is a trade contract stipulating that one party purchases a good for its own account and sells it to the other party with a mark-up [Vissner 2013]. The payment usually takes place sometime afterwards or in instalments. There are many controversies connected with this tool of finance, especially with some modifications of this contract such as commodity *murabaha* (also called *tawarruq*), where the purchase of goods (usually one of the metals) does not take place because the buyer wants to be in their possession, but it serves as an intermediary transaction to achieve other aims, e.g. it can serve as an instrument for liquidity management. Another reason why some Islamic scholars consider *murabaha* not shariah-compliant is the fact that the mark-up is often based on the interest rate. However, since it is a very useful instrument, appreciated by both the banks and their clients, it is widely used. The practice of heavy usage of *murabaha* has even earned its own name – "*murabaha* syndrome" [Yousef 2004].

In a *salam* contract one party of the contract agrees to provide specific goods at a future date while the other party agrees to pay its price in full at the conclusion of the contract. Just like *salam*, an *istisna* contract is a purchase agreement for future delivery of an asset. Unlike the *salam* contract, however, in the *istisna* contract, the payment to the producer or contractor of the asset does not have to be in full in advance. Payment usually is done in instalments in line with the progress made on the development of the asset. Therefore this tool of finance is especially suited to project finance and construction [Schoon 2010].

An *ijara* contract is the Islamic equivalent of a leasing transaction. The difference between two instruments is that in *ijara* the proprietorship of the object of the lease stays with the lessor. The asset stays on its balance sheet until the end of the period of the lease. What is transferred is its usufruct [Boumediene 2011].

To those in need, Islamic banks can also offer financing through *qard hassan*, which is a benevolent loan. In that case, the debtor is not required to repay anything above the amount borrowed.

Naturally, Islamic banks, just like their conventional counterparts offer their customers the possibility of depositing their money. Islamic deposits may be based on the profit and loss sharing principle (*mudaraba*). In that case the return the customer is given depends on the profits of venture in which the bank invests the money of the depositor. *Wadia* is another construction of a bank deposit, especially used in the case of demand and saving accounts. In this case, the depositors deposit their funds with the bank for safekeeping. Usually the bank charges a fee for the safe custody, but at the same time gives the guarantee to return the full amount on demand of the depositor.

3. Evolution and current state of Islamic banking in Indonesia

With the population of 257.5 million, Indonesia is the world's fourth most populous country [United Nations Department of Economic and Social Affairs 2015]. It is also the country which has the world's largest Muslim population. They constitute over 86% of the country's overall population. Most of them are Sunni and represent Shafi'i school of shariah law.[1]

However, despite being the largest Muslim country in the world, Indonesia was relatively slow in introducing Islamic banking. It was almost 20 years after the emergence of the modern Islamic banking in the world that the government of Indonesia decided that support for Islamic banking project would be an important gesture towards the Muslim community.

In 1992, Banking Act No. 7 was enacted which allowed Islamic banks to operate in Indonesia alongside conventional institutions [Bank Indonesia 2002]. Though, even before that, the work on establishment of the first interest-free bank had

[1] There are four main Sunni schools of law: Hanafi school, Maliki school, Shafi'i school and Hanbali school.

started. In August 1990, the idea of such a bank was explored by the Indonesian Council of Ulema (*Majelzs Ulama Indonesia* – MUI)[2] in a workshop held in Cisarua. Subsequently the MUI established a working group, the task of which was to develop a concrete plan for establishing an interest-free bank. It should be noted that the project received the backing of Suharto, then President of Indonesia. He pushed a number of prominent figures, including several ex-ministers and Muslim businessmen to participate in it. The involvement of the Association of Indonesian Muslim Intellectuals (*Ikatan Cendikiawan Muslim se-Indonesia* – ICMI), an organisation largely controlled the by state, was also important for the realisation of the project. Backed by the government, the first Indonesian Islamic bank, Bank Muamalat Indonesia (BMI), was established in a relatively short time. It started operations on 1 May 1992 [Saeed 2008].

However, 7 years had to pass until the second Islamic bank, Bank Syariah Mandiri (BSM) started operations in Indonesia in November 1999 [Venardos 2011].

In 1998, the Act No. 10 of 1998 on the amendment of the Act No. 7 of 1992 came into force. It allowed conventional banks to offer Islamic financial services through an Islamic unit (window), which is a separate department of a conventional bank dedicated to Islamic finance. A year later in 1999, the Bank of Indonesia Law No. 23 (in 2006 amended by Law No. 3) provided the central bank with the authority to develop policies, regulations and instruments which comply with principles of shariah [Venardos 2011]. In practice it meant that authority over Islamic banks was placed in the Bank Indonesia rather than the Ministry of Religion or MUI [Lindsey 2012], which was essential, if the Islamic banks were going to become a viable alternative for conventional institutions.

Another important legislature, the law concerning shariah (Islamic) banking (Act No. 21 of 2008) was passed in July 2008. The main aim of this legislature was to gather all the previous regulations in one act and to eliminate any existing inconsistencies [Lindsey 2012].

Apart from essential regulations, in 2002, Bank Indonesia designed a blue print, being a guidance for banks, banking regulators, government and all concern parties how to expand Islamic banking industry. Another strategy, market development strategic program (MDSP) was implemented in 2008. Its main aim was to improve the quality of Islamic banking services, develop new Islamic financial products, but also to create a positive image of Islamic banks [Ismal 2011].

It is among others, thanks to the steps undertaken by Indonesian authorities that Islamic banking industry has been growing promisingly in recent years, which is confirmed by an increasing number of Islamic banks, operating in the country and increasing value of their assets, deposits and financing they provided.

According to the latest data, as of June 2015, there are 12 full-fledged Islamic commercial banks in Indonesia. These are: PT. Bank Muamalat Indonesia, PT. Bank

[2] Indonesian Council of Ulema is the highest Islamic clerical body in Indonesia.

Victoria Syariah, Bank BRI Syariah, B.P.D. Jawa Barat Banten Syariah, Bank BNI Syariah, Bank Syariah Mandiri, Bank Syariah Mega Indonesia, Bank Panin Syariah, PT. Bank Syariah Bukopin, PT. BCA Syariah, PT. Maybank Syariah Indonesia, PT. Bank Tabungan Pensiunan Nasional Syariah. Those banks operate through 2 121 offices spread all over the country. Apart from that, 22 commercial banks offer Islamic products through Islamic units. There are also 161 Islamic rural banks in Indonesia [Bank Indonesia 2015], the aim of which is mainly to provide funding for agriculture activities.

In June 2015, assets of Islamic banks and Islamic units amounted to 272 389 billion IDR, which accounted for 4.6% of total banking assets in Indonesia. In years 2009-2014 the average growth of Islamic banking assets exceeded 30%. The value of both financing provided by Islamic banks and money, deposited in those banks, were also increasing (Tables 1 and 2).

The financing of Islamic banks increased by more than fourfold from 46 887 billion IDR in 2009 to 199 330 billion IDR in 2014. It should be emphasised that composition of Islamic financing instruments is distinct in Indonesia. Although *murabaha* remains the most popular tool of finance, unlike activities of Islamic banks in other countries, the share of PLS modes of finance has always been relatively high in Indonesian Islamic banks (Table 1). In 2014, such investments captured 34% of total financing, while in majority of other Islamic countries *musharaka* and *mudaraba* account for only several percent. Moreover, Indonesian Islamic banks do not apply some controversial contracts (e.g. commodity *murabaha*), which are commonly used in the Middle East countries and Malaysia. This indicates that Islamic banks in Indonesia try to approach the ideal model of Islamic banking with the domination of profit and loss modes of finance [Ismal 2011], which is why Indonesian Islamic banking sector invalidates criticism that Islamic banking is conventional banking in disguise. It should be also noticed that in Indonesia *qard hassan* loans are more significant than in many other countries. Indonesia ranks third after Jordan and Bahrain when it comes to the amount of this kind of loans [ICD Thomson Reuters 2014]. And what should be indicated, such loans are especially encouraged in Islam, since they help those who are in need and difficult life circumstances.

Also the amount of funds accumulated in banking accounts has increased in the last few years. In 2009, their value was 52 271 billion IDR, while at the end of 2014 they amounted to 217 858 IDR, which means they increased by fourfold. Just like in the case of modes of finance, the fact that a big part of them is based on PLS structure, namely *mudaraba*, means that Indonesian Islamic banks are faithful to Islamic principles.

While the value of deposited money increased, the term structure of deposits is not very satisfying. The demand and savings accounts constitute far too dominant share (Table 2). And time deposits with maturity exceeding 1 year, have not even 1% share. The shortage of long-term deposits is evidently the problem of the Indonesian Islamic banks.

Table 1. Financing Composition of Islamic Banks in Indonesia (in billion IDR)

	2009		2010		2011		2012		2013		2014	
	value	%	value	%	value	%	value	%	value	%	value	%
Mudaraba	6 597	14	8 631	13	10 229	10	12 023	8	13 625	7	14 354	7
Musharaka	10 412	22	14 624	21	18 960	18	27 667	19	39 874	22	49 387	25
Murabaha	26 321	56	37 508	55	56 365	55	88 004	60	110 565	60	117 371	59
Istisna	423	1	347	1	326	0	376	0	582	0	633	0
Ijara	1 305	3	2 341	3	3 839	4	7 345	5	10 481	6	11 620	6
Qard hassan	1 829	4	4 731	7	12 937	13	12 090	8	8 995	5	5 965	3
Total	46 887	100	68 182	100	102 656	100	147 505	100	184 122	100	199 330	100

Source: [Financial Services Authority, Republic of Indonesia 2015].

Table 2. Depositor funds of Islamic banks in Indonesia (in billion IDR)

	2009		2010		2011		2012		2013		2014	
	value	%	value	%	value	%	value	%	value	%	value	%
Demand deposits – *wadia*	6 202	12	9 056	12	12 006	10	17 708	12	18 523	10	18 649	9
Saving deposits	16 475	32	22 908	30	32 602	28	45 072	31	57 200	31	63 581	29
a. *wadia*	1 538	3	3 338	4	5 394	5	7 449	5	10 740	6	12 561	6
b. *mudaraba*	14 937	29	19 570	26	27 208	24	37 623	26	46 459	25	51 020	23
Time deposits – *mudaraba*	29 595	57	44 072	58	70 806	61	84 732	57	107 812	59	135 629	62
a. 1 month	19 794	38	31 873	42	50 336	44	53 700	36	74 752	41	103 100	47
b. 3 months	4 544	9	6 165	8	10 629	9	17 653	12	19 352	11	20 615	9
c. 6 months	1 758	3	2 294	3	4 186	4	6 421	4	6 645	4	6 402	3
d. 12 months	3 497	7	3 738	5	5 609	5	6 953	5	7 058	4	5 486	3
e. > 12 months	1	0	3	0	45	0	5	0	5	0	25	0
Total	52 271	100	76 036	100	115 415	100	147 512	100	183 534	100	217 858	100

Source: [Financial Services Authority, Republic of Indonesia 2015].

4. Prospects for the future

As it was already indicated, although Islamic banking has been developing well in Indonesia, it is still not very popular, especially when compared to Islamic banking in other Muslim countries, such as Malaysia, the Middle East countries or Iran.

One of the reasons for this is the fact that in contrary to other Muslim countries, Indonesia's authorities were reluctant to support it for a long time. It was only at the beginning of 1990s when President Suharto started losing support of the society, that he gave consent and backing for the establishment of Islamic banking in the country.

Another reason for relatively small popularity of Islamic banking in Indonesia might be the highly syncretic nature of Islam in Indonesia which results in a more relaxed attitude towards shariah. In the past, several respected Indonesian intellectuals argued that the prohibition of *riba* should not be understood as interest charges by modern banks. Naturally, Indonesian Islamic jurists have opposed this view, but the greater Muslim public seems to be indifferent to this issue [Venardos 2011]. In spite of this, there is still potential for growth of Islamic financial industry in Indonesia.

The major appeal of Islamic banking for new customers in Indonesia could be the ethical and socially responsible nature of Islamic financial investments. Some interesting answers with regard to this issue can be found in a survey "Banking as It Should Be", commissioned by Abu Dhabi Islamic Bank (ADIA) in 2013 of 1000 banking customers in the United Arab Emirates, Indonesia, Turkey, Egypt and the United Kingdom. The survey found that banking customers are largely disappointed with the services provided by their current banks and seek a more customer focused and ethical banking service. ADIA believes this can be an opportunity for Islamic banks in those countries, but what is required is remaining true to the banking industry's roots in Islam by concentrating on such values as hospitality, openness and respect. What should be noticed is that only less than a third of the questioned said they know a lot about Islamic banks. When the banking customers from Indonesia and three other Muslim countries were informed about the ethical attributes of those banks, the proportion of people willing to use their services increased to 83% from 68% before the information was provided [ICD Thomson Reuters 2014]. But if Indonesian Islamic banks want to gain new customers, the effort is needed to educate the general public with the Islamic financial products and operations.

The further opportunities for Islamic banks in Indonesia lie also in the inclusion in the banking system of those members of the society who have not used any banking services so far. It especially concerns people, inhabiting rural areas. With regard to this issue, it should also be indicated that Islamic banks in Indonesia, especially rural banks, are engaged in microfinance schemes, in much greater scale than their conventional counterparts. And in the future their engagement is going to be even higher.

It should be also noted that so far investment Islamic banking has been almost non-existent in Indonesia. Creation of Islamic investment banks and new Islamic products can be the further boost for the development of Islamic finance industry in this country.

There are however a few obstacles that need to be overcome if Indonesian banking industry wants to use its high potential.

One of the problems which Islamic banks need to overcome concerns risk management, especially the management of liquidity risk. Conventional banks have access to a number of tools, enabling liquidity management, such as interbank deposits, foreign exchange swaps, repo operations, treasury bills and commercial papers. All those instruments are based on interest rate and that is why they are not accessible to Islamic banks. Islamic interbank money market is underdeveloped and the secondary markets for most short-term instruments are illiquid. And because of different interpretation of shariah, in different jurisdictions other instruments are permitted which makes it very difficult to develop international money market. Though it should be mentioned that some initiatives have been already taken aiming at closer collaboration between different Islamic countries, such as establishment of International Islamic Liquidity Management Corporation (IILM), International Islamic Financial Market (IIFM) and Liquidity Management Center. Those bodies are expected to play a key role in the process of harmonisation and standardisation of transactions across the countries which would facilitate the creation of cross-border money market. The activities of the above mentioned entities should concentrate on increasing liquidity of the secondary markets and the development of instruments which would be approved across different Islamic jurisdictions. Without the sufficient supply of short-term instruments and well-developed secondary market, liquidity risk management in Islamic banking will remain ineffective in comparison with techniques adopted by conventional institutions and this will affect negatively the competitiveness of Islamic finance industry [Sobol 2013].

What is also needed is a greater influx of capital into Indonesian Islamic banks which are still smaller and poorer, than their conventional counterparts. It is the reason why on 19 November 2014, the Indonesian Financial Services Authority (OJK) issued a regulation according to which conventional banks must spin off their Islamic units and list them on the Indonesian stock exchange by 2023. Such listings are expected to spur consolidation among Islamic banks over the next few years [Lawrence 2014], which will make them bigger and more competitive to their conventional counterparts.

Finally, what is also needed is the further education not only of the customers, but also management and employees of such banks. The increasing number of offices of Islamic banks means that additional human resources are needed in those institutions, preferably people who understand well both Islamic and conventional banking. The number of institutions that teach Islamic finance increased in recent years and reached 17 in 2014, but taking into account the population of Indonesia, this number is still not sufficient. For example, in countries which are leaders in this category, the United Kingdom and Malaysia, there are 68 and 44 of such institutions respectively [ICD Thomson Reuters 2014].

5. Conclusions

Islamic banks fulfil the same needs of customers as conventional banks. They provide a variety of religiously acceptable financial services to Muslim communities, but also can be an alternative for non-religious Muslims and non-Muslim clients seeking ethical investments and greater risk diversification. In many Muslim countries, Islamic banking has become a significant segment of financial markets. In Indonesia, their share in total banking assets is still relatively small (4.6%). However, with the support of the Indonesian authorities, Islamic banking has been developing well since its inception in the beginning of 1990s and, despite some barriers, it has potential to develop further in the future.

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