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Islamic Banking in Indonesia: A Study of Model and Method to Increase Market Share

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Abstracts

The development of Islamic Banking in Indonesia is unique compared with the other countries i.e Midlle Eastern Countries and Europe. Its uniqueness is caused by its model that focused on customer retail banking. Based on this model, the best strategy to increase the market share of Islamic banking in Indonesia has to be an accelerated or double accelerated growth. This strategy is implemented by encouraging the Central Bank to issue the regulation that each bank has to allocate 10-20 % of its capital to its Islamic unit. This strategy has to be synchronized with product innovation such as using hybrid contracts and developing Islamic micro banking institutions.

Keyword: Islamic Banking, Micro Banking, Market Share, Organic Growth, Inorganic Growth, Accelarated Growth, Hybrid Contract, Fatwa

INTRODUCTION

Islamic banking is one of many aspects that were developed in the study of Islamic economics. Islamic banking and finance get a dominant attention of the Islamic economics movement around the world.[2] Various studies and implementation have been applied and developed by both academicians and practitioners.[3]

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[2]Munawar Iqbal said that attention to Islamic banking sector is very important because the banks play an important role in the economic activities of the community in the form of intermediation and other services. According to him, in the history of Islam, the intermediation function is not so dominant because it usually happens in the way of direct financing where an investor (sah{ib al-ma<l) go directly to the users of money (mudarib). Although this model was dominant in the early Islamic period, but there was also a pratice where a person collect money from investors and channel them to a user of the funds. Therefore, in the history of Islam a *suftajah* institutions (money transfer) was also well known. This profession was admitted by the scholars. See, Munawar Iqbal, *Thirty Years of Islamic Banking, History, Pefomance and Prospects* (New York: Palgrave Macmillan, 2005), 126.

[3]The idea of Islamic banking institutions in the modern era is no other than the revival of the Islamic financial system that was practiced in the heyday of early Islam. Therefore, the problems should not be related to the question of whether these institutions should exist or not in the Islamic community, but the more important thing is how these financial institutions are able to function optimally. This requires a strong support of law and strict supervision from the various parties. See, M. Umer Chapra dan Habib Ahmed, *Corporate Governance in Islamic Financial Institution* (Jeddah: Islamic Development Bank, 2002), 3-5

In practice, Islamic banking in Indonesia has a specific approach especially in terms of the market segments. Despite its seemingly good development, the Islamic banking sector accounted for just 4.5% of the total banking assets as per the end of 2012. This percentage is still far from expectations. This condition need a serious attention because increasing the market share of Islamic banking in Indonesia would give a good contribution to the Indonesian economy at whole.[4] Let's say, if Islamic banking market share reached 50 %, the impact would be tremendous for the country. First, the burden of Bank Indonesia (BI) will fall by half from Rp. 16.67 trillion to Rp. 9.64 trillion. In other words, BI can save money more than 6 trillion (38.45%). Subsequent impact is inflation and money supply will decrease. Second, the expansion of credit and financing will increase. The data in 2006 showed that the total amount of credit to the real sector financing reached Rp. 746.8 trillion (727.85 trillion for conventional banks and 19.04 trillion for Islamic banks) increased to be 990 trillion (conventional banks Rp. 363.9 trillion and Islamic banks Rp. 626.34 trillion). In other words, there was an increase in credit volume by 32.5 % for productive fields. Third, by using the same estimates, the amount of fail loans can be suppressed so the risk to be beared by the bank, deposit insurance agencies, government and society can be minimized.[5]

So far, the efforts to increase the market share of Islamic banking is seemed less effective. It is caused by the lack of mapping of the current condition of Islamic banking in Indonesia. As a result, the market share achieved is not in line with expectations. Therefore, this paper attempt to offer a new strategy that is based on real conditions of Islamic banking in Indonesia.

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[4]Hendri Tanjung in his paper stated that Islamic banking could create a stable economy in the long run term. This is because its structure has the ability to survive in the crisis. This survival tool is not owned by the conventional banking structure which allows it to have obligations (liabilities) greater than its assets. See, Hendri Tanjung, "Apakah Bank Syariah Membuat Ekonomi Stabil? Suatu Pendekatan teori dan Model Matematika Serta Implikasinya" disampaikan pada acara *Forum Riset Perbankan Syariah V* di Universitas Muslim Indonesia Makassar pada tanggal 26-27 Juni 2012

[5]A. Riawan Amin, *Indonesia Militan* (Jakarta: Celestial Publishing, 2008), 138-139.

ISLAMIC BANKING IN INDONESIA: MODEL IMPLEMENTED

In Indonesia, the development of Islamic banking is quite different if compared to other countries.[6] The model implemented in Islamic banks in Indonesia is commercial banking. This is, in contrast with the Islamic overseas banks that are mostly investment banking. Although, this difference should put Indonesia on the slower development, but interestingly, the growth of Islamic banking in Indonesia would be able to match the development of Islamic banking abroad. Therefore, it is necessary to appreciate the achievement made by Islamic banking in Indonesia. Nevertheless, comparing between Islamic banking in Indonesia and overseas ones, especially the Middle East is not comparable (apple to apple) because they have different approach and model.[7]

According to Bank Indonesia, in 2013, there are 11 Islamic Banks (BUS), 24 Sharia Units (UUS), and 156 BPRS. The total of offices increased from 1,692 offices in the previous year to 2,574 offices in 2012. Thus, the number of branch of Islamic banking services increased by 25.31%. (Data obtained on December 17, 2012). Islamic banking assets are now reaching Rp.179 trillion (4.4% of national banking assets), while deposits of Rp. 137 Trillion. A remarkable thing is, *the total Islamic banking financing channeled Rp 139 trillion, exceeding the* amount of deposits. This means that the Islamic banking FDR is above 100

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[6]In Indonesia, according to Article 2 of Law no. 21 Year 2008 on Islamic Banking, stated that Islamic banking in conducting its business activities based on Islamic principles, economic democracy, and the principle of prudence. Business activities based on Islamic principles are business activities that do not contain the following elements: a. usury, ie the addition of illegal income (vanity), among others, in exchange transactions that are not with same kind of goods quality, quantity, and time of delivery (fad{l), or in the borrowing and lending transactions that require recipients to refund customers who received more than principal due to the passed of time (nasi <'ah) b. Maisi <r, ie transactions which hung to a situation that is uncertain and speculative; c. gharar, the transaction object is not clear, whether related to the ownership, is not known, or can not be delivered at the time of transaction; d. haram, ie prohibited transaction objected in sharia, or e. oppressors, ie transactions which cause injustice to the other party. See Article 21, law No 21 Year 2008.

[7]To provide guidance to stakeholders of Islamic banking as well, Bank Indonesia has published a "Blueprint of Islamic Banking Development in Indonesia". In preparation, various aspects have to be considered in a comprehensive manner, the actual condition of the national Islamic banking industry and its related tools, the development trend of Islamic banking industry in the international and national development, as well as inseparable from other established financial system as the Indonesian Banking Architecture (API), the Indonesian Financial System Architecture (ASKI) and international best practices formulated by Islamic financial institutions internationally, as IFSB (Islamic Financial Services Board), AAOIFI dan IIFM. See, http://www.bi.go.id/web/id/Perbankan/Perbankan+Syariah/

percent. These data suggest that the role of Islamic banking to drive economy is very large. The growth in assets, deposits and financing is also relatively high, i.e asset growth is about ± 37%, deposit growth is ± 32 %, deposits growth and financing growth is ± 40%. One thing to note, the market share of Islamic banking compared to conventional financing is in excess of five per cent, 5.24 %. The number of Islamic banking customers from year to year increased significantly from year 2011-2012 growing for about 36.4%. The number of the customers has reached 13.4 million accounts (Oct ' 2012, 36.4 % - yoy), both deposits customers and financing ones. In 2011 the number of account holders was 9.8 million, then increased in 2012 to 13.4 million accounts. It means that in a year there was an increase about 3.6 million customers. With the huge growth, the more communities could be served. The broadening scale of Islamic banking showed that this institution can play greater role for the economic development of this country.[8]

Table 1
The total of Islamic Banks in Indonesia until October 2012

	2012									
	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct
BUS	11	11	11	11	11	11	11	11	11	11
Number of Office BUS	1435	1421	1460	1457	1499	1529	1543	1598	1680	1686
BUK with UUS	24	24	24	24	24	24	24	24	24	24
Number of Offices	378	585	427	434	447	470	495	498	500	502
Number of BPRS	155	155	155	155	156	156	156	156	156	156
Total of Offices	382	374	373	376	377	378	370	364	386	386
Total Offices	2195	2380	2260	2267	2323	2377	2408	2460	2536	2574

Source: Statistic of Bank Indonesia (October 2012)

[8] www.bi.go.id accessed 31 December 2012

The financial system which is applied in the countries around the world is dominated by the dual banking system beside Islamic full pledged finacial system.[9]

Table 2.
Features and Supervision of Islamic Banks Around The World

No	Country	Supervision and Features
1.	Bahrain	1. Regulated by Bahrain Monetary Agency (BMA) supervision. 2. BMA regulates both commercial banks and investment banks (securities firm). Insurance companies are under separate regulatory authorities. 3. *Dual banking system.* 4. Basel Capital Requirements. 5. 4 Islamic Banking groups: 1. Islamic Commercial Banks, 2. Islamic Invesment Banks, 3. Islamic Offshore banks, 4. *Islamic banking Windows* in conventional banks. 6. Consolidated supervision. 7. International Standards Accounting Adopted. 8. Each islamic bank must have a shariah board. 9. Compliance with AAOIFI stnadards. 10. Investment deposit, current account, and capital allocation for asset must be declared. 11. Mandatory liquidity management by adopting the standarised maturity bucket of assets. 12. Islamic and conventional mix system.
2.	Gambia	1. Regulated by Bank Sentral Gambia (CBG). 2. Islamic banking law exists. 3. *Dual banking.* 4. Separate shariah board required. 5. Compliance with Basel. 6. International Accounting Standard not clear.
3.	Indonesia	1. Regulated by Bank Indonesia (BI). 2. Separate regulatory bodies. 3. Islamic Banking Acts (UU No 21 Tahun 2008) 4. Islamic windows allowed. 5. *Consolidated supervision.*

[9]Overall, although there were much critics, but the presence of Islamic banking in the world along 3 (three) decades has managed to provide new innovations to the tradition of the world's banking industry, namely: 1. The tradition of the relationship between a bank and its customers since the 15th century that was based on money and interest-bearing loan contract into a good relationship in the form of partnerships, revenue-sharing, rental, or sale and purchase, and without interest; 2. The relationship between the financial sectors and real ones have been separated for several centuries; 3. The values of ethics and morals in the investment decisions that really should be obeyed by all parties. See, Monzer Kahf, *Islamic Baking at The Threshold of The Third Millenium* (Jeddah: IRTI, t.t), 7

		6. Compliance with Basel. 7. International Accounting Standard adopted. 8. Active shariah bank development strategy in place by the government.
4.	Iran	1. Regulated by Bank Sentral Iran (Bank Jumhuri Islam Iran). 2. All banks in the public sector with a plan for minority privatization. 3. Bank regulation and supervision is strongly effected by monetary as well as fiscal and other government policies. 4. Single islamic bank. 5. Modes of finance are defined by law. 6. Basel anad International Accounting Standard. 7. No Shariah Board for individual banks. 8. Onsite and offsite supervisory methods. 9. Different regulatory authority.
5.	Yordania	1. Regulated by Bank Sentral Yordan (Central Bank of Jordan). 2. Separated division. 3. Islamic Banking law available. 4. *Dual banking system* 5. Supervision consolidated. 6. Basel. 7. International Accounting Standard (AAOIFI).
6.	Kuwait	1. Regulated by Sentral Bank of Kuwait (CBK). 2. CBK supervise commercial banks and investment banks. 3. Separated authority for insurance company. 4. *Dual banking system.* 5. Islamic Banking law available. 6. *Dual banking system* 7. Supervision consolidated. 8. Basel. 9. International Accounting Standard (AAOIFI)..
7.	Malaysia	1. Regulated by Central Bank of Malaysia (Bank Nagara Malaysia –BNM). 2. Same authority for both banking anad insurance company. 3. *Dual banking system.* 4. *Islamic windows* in conventional banking. 5. Consolidated supervision. 6. Basel. 7. International accounting standards. 8. Using CAMEL. 9. *onsite* and *offsite* supervision.
8.	Pakistan	1. Regulated by Sentral Bank of Pakistan (State Bank of Pakistan). 2. Separated authority.

		3. Major banks in the public sector. 4. Islamic banking law not exists. 5. Mudharabah companiies law exists 6. Islamic Banks are indentified distintly. 7. Basel and supervision 8. *Insite* and *offsite.*
9.	Qatar	1. Regulated by Central Bank of Qatar (CBQ). 2. *Dual banking system.* 3. Separated Islamic Banking Law not exist.
10.	Sudan	1. Regulated by Central Bank of Sudan (CBS). 2. Single system. 3. Separate shariah boards. 4. Compliance with Basel anad International Accounting Standards.
11.	Turki	1. Regulated by Central Bank of Turkey (Turkeyi Cumhuriyet Merkez Bankasi-TCMB). 2. Regulated by separated bodies. 3. *Dual system.* 4. Compliance with Basel. 5. *Onsite* and *offsite.*
12.	UEA	1. Regulated by Central Bank of UEA. 2. Islamic banking law exists. 3. *Dual banking system.* 4. Islamic Windows 5. Compliance with Basel. 6. International Accounting Standards.
13.	Yaman	1. Regulated by Sentral Bank of Yemen (CBY). 2. *Dual banking system.* 3. Islamic banking windows allowed. 4. Separated supervisory office for islamic banks inside CBY. 5. Compliance with Basel not clear.

Source: Tarek S. Zaher and M. Kabir Hasan (revised) [10]

From the table above, it shows that the countries which implemented full-pledged Islamic financial system are Iran, Pakistan and Sudan. The other countries tend to use dual banking system. Although fully implementing Sharia principles in their financial systems, the methods of implementation in each country is quite different. In fact, countries that implement fully Islamic financial system (Pakistan, Iran and Sudan) are the country where Islamization process under the situation of religion, politics and different cultures.[11] From the table

[10]Tarek S. Zaher dan M. Kabir Hasan dalam tulisannya, *A Comparative Literature Survey of Islamic Finance and Banking* (t.t), 185-187

[11]Ibrahim Warde, *Islamic Finance in Global Economy* (Edinburg University Press, 2000), 112.

above, it can be also concluded that the existing Islamic banks in Muslim countries are under the supervision of the central bank of each country. Supervision is held to ensure that Islamic banking can perform its functions well for helping the economic policy of the country.

In term of of market share, the countries with a small population of 10 million such as Bahrain, Kuwait and the UAE have a large market share for about 46 % (Bahrain), 31 % (Kuwait) and 17 % (UAE). This fact is caused by the models used i.e. traditional investment banking. On the other side, the countries which include small population (30 million people) such as Saudi Arabia and Malaysia have a large market share about 35 % (Saudi Arabia) and 25 % (Malaysia). The cause of this high market share is the model of corporate commercial banking they used. On the contrary, the countries with large populations (70 million) as Indonesia, Egypt, Pakistan and Turkey have smaller market share for about 4 % (Indonesia), 4 % (Egypt), 5% (Turkey) and 9% (Pakistan). This small market share is caused by these countries using a commercial model of retail banking. Therefore, it is reasonable if the prevalent market share in the countries with large populations (70 million) are small.[12]

In Indonesia, Islamic banking assets are also relatively small compared to their competitors (conventional banks). *Like the ant against an elephant*. As a comparison, for example, asset of Bank Syariah Mandiri, the Indonesia largest Islamic bank had "only" about 48 T. This asset is a half of the total assets owned by Bank Tabungan Negara at around 89 T. In terms of efficiency, the efficiency ratio as measured from the Islamic banking shows far behind compared to conventional conditions (above 80 %). In terms of NPL/NPF if taken at average of 2.7 %, It shows that the NPF also suggests that there should be serious improvement. In terms of profitability (ROA and ROE) Islamic banks has to be fixed.[13]

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[12]Maris Strategies, The Banker, 2010. Top 500 Islamic Financial Institutions Report Supplement, as in OIC Outlook Series May 2012.

[13]www.bi.go.id

STRATEGY TO INCREASE THE DEVELOPMENT OF MARKET SHARE OF ISLAMIC BANKS IN INDONESIA

From the explanation above, we know that the definition of Islamic banks in some countries have a different meaning. In the Gulf regions, the term of Islamic banks is referred to "investment banking" with its primary purpose is to get high profit. In Indonesia, an Islamic bank is referred to a "commercial banking "or "retail banking institution" which acts as a guardian of wealth (protection of wealth). In Europe, the term is expanded to "universal banking".[14] But in the future, the presence of the Financial Services Authority (OJK), there would be possible to sell investment banking products in commercial banking.

The differences in the definition –as mentioned above- implies different strategies. The strategy used in the investment banks certainly cannot be applied in commercial banking, and vice versa. The strategy can be described as follows:

1. What is needed in retail banking is the flexibility, high mobility and high access (accessibility).
2. What is needed in the commercial banking is reliability, prudential aspects, and competitiveness.
3. What is needed in investment banking is the return, acceptable risk, or sophisticated products.

In Indonesia, the existing data mentioned by LPS shows that there are only 140 thousand accounts (0.14 %) which are above 2 billion. These potential customers can be targeted for investment banking for getting higher market share at least 51.1%. While the number of accounts holder under 2 billion is about 99.86 % or about 101.391million rupiahs. On the other hand, with a 100 million accounts totaling 2.662 million (2.6 %), while the number of 100 million amounted to 98.869 million (97.4 %).[15] They are potential customers that could be

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[14]Ibrahim Warde divided the school of Islamic financial institutions into 2, i.e. modern and traditionalist one. Both school claim that their approach is correct. Traditionalists school use of the texts of the Koran, Hadith and fiqh textually, while modern school more easily accept even innovation made by non-Muslims. According to Ibrahim Warde, understanding these two schools is useful for analyzing the Islamic financial institutions at whole. See, Ibrahim Warde, *Perception of Islamic Banking among European and American Bankers* (San Fransisco: Working Paper, 1997), 29.

[15]Lembaga Penjamin Simpanan

cultivated for commercial banking and for increasing inclusivity of Islamic banking.

For that reason, there are several options for the development of Islamic banks in Indonesia based on segment by segment, namely:

a. If the goal is to get a more customers and to increase the inclucivity of the islamic banks, then the options are to increase the retail commercial or retail investment products.
b. If the objectives is gaining the market size, the products should be targeted for corporate and investment products.
c. On the other hand, if the objective is to achieve large number of banking customers so it is suggested that the model is the retail banking because the number of customers can reach 97.4%. The strategy for this model can be in the form of branchless banking or micro banking.

There are several strategies that can be used if we preferred model of Islamic banking in Indonesia is the investment and commercial banking, namely:

a. Organic growth[16]

This strategy is implemented organically without the use of other instruments. Bu using this approach, it is estimated that the Bank Syariah Mandiri will reach 100 trillion rupiahs in December 2015. Its position is under the Bank Tabungan Negara. While Bank Muamalat Indonesia (BMI) is less than ANZ Bank and slightly above BUKOPIN.

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[16]Organic Growth is the rate of a business expansion through a company's own business activity, while Inorganic Growth means that the company has grown by merger, acquisitions or takeovers. When a company with help of its efficient management enhances its growth rate it is referred to as organic growth which is alsoknown as Internal Growth whereas inorganic growth is attained when a company acquires a technology developing company in order to enhance its competitive advantage and growth rate and is also known as External Growth.

b. Inorganic growth

This strategy is done by converting any conventional banks into BUS. Inorganic growth approach (by converting a conventional bank) has several issues that are related with:

a. Conversion strategy
b. Mapping the conversion
c. Conversion policy
d. Accounting policies
e. Handling customers (deposits and loans)
f. Human Resources
g. Information technology
h. Making a detailed list of assets and liabilities conversion

c. Accelerated organic growth.

This strategy is done by pushing Bank Indonesia (BI) to issue a regulation that obliged conventional banks to share their asset at least 10 % of total bank assets - to be converted to be Islamic units. If this is well done in 12 months, there will be an additional Rp. 96 trillion. This amount equals with the growth of organic growth (Rp 100 T) during 24 months.

d. Double accelerated organic growth.

This strategy is implemented by encouraging BI to issue a regulation to obliged a minimum of 20 % of total bank assets - to be Islamic or Shariah Division. If this method used, it will obtain additional for about Rp. 193 trillion in 12 months. Conventional banks will most likely choose to shariah unit and not SMEs because the tool for SMEs does not exist.

Of various strategies above shows that the strategy of accelerated growth or double accelerated growth is better to use in increasing the market share of Islamic banking in Indonesia.

STRATEGY FOR PRODUCT DEVELOPMENT

Until December of 2012, the National Shariah Board (DSN) has issued 83 fatwas as below:

Tabel 3.
Fatwas of National Shariah Board untill March 2011

No	Kind of Fatwa	Number
1.	Islamic Insurance	1. Fatwa No. 21: General Guidelines of Takaful 2. Fatwa No. 39: Hajj Insurance 3. Fatwa No. 51: Mudharabah Musytarakah In Syariah Insurance 4. Fatwa No. 52: Wakalah bil Ujrah in syariah insurance and re-insurance 5. Fatwa No. 53: Tabarru' in Syariah Insurance 6. Fatwa No. 81: Return of Tabarru' Fund for Syariah Insurance
2	Islamic Bonds	1. Fatwa No. 32: Islamic Bond (sukuk) 2. Fatwa No. 33: Mudharabah Islamic Bond 3. Fatwa No. 41: Ijarah Islamic Bond 4. Fatwa No. 59: Mudharabah Convertibe Islamic Bond
3.	Murabahah	1. Fatwa No. 4: Murabahah 2. Fatwa No. 13: Down Payment of Murabahah 3. Fatwa No. 16: Discount of Murabahah 4. Fatwa No. 23: Cash Discount Murabahah 5. Fatwa No. 46: Cash Discount Murabahah (*Khashm fi Al-Murābaḥah*) 6. Fatwa No. 47: Murabahah Receivable for Default Debitur 7. Fatwa No. 48: Rescheduling Murabahah 8. Fatwa No. 49: Conversion of Murabahah 9. Fatwa No 77: Gold Murabahah
4.	Export / Import	1. Fatwa No. 34: Shariah Letter of Credit (L/C) Import 2. Fatwa No. 35: Shariah Letter of Credit (L/C) Export 3. Fatwa No. 57: Letter of Credit (L/C) with Kafalah bil Ujrah 4. Fatwa No. 60: Penyelesaian Piutang dalam Ekspor 5. Fatwa No. 61: Penyelesaian Utang dalam Impor
5.	Mudharabah	1. Fatwa No. 7: Mudharabah (Qiradh) Financing 2. Fatwa No. 38: Certificate of Mudharabah Investment Between Banks (IMA Certificate) 3. Fatwa No. 50: Mudharabah Musytarakah

6.	Islamic Capital Market	1. Fatwa No. 20: Guidelines of Shariah Mutual Fund 2. Fatwa No. 40: Stock Market and The General Provision of Shariah Principle Application in The Stock Market 3. Fatwa No. 65: Shariah Right Issue 4. Fatwa No. 66: Shariah Warrant 5. Fatwa No. 80: The Application of Shariah Principles in Trading Mechanism of Equity Securities at Stock Exchange Regular Market
7.	Central Bank Certificate	1. Fatwa No. 36: Wadiah Certificate of Bank Indonesia 2. Fatwa No. 63: Shariah Certificate of Bank Indonesia 3. Fatwa No. 64: Shariah Certificate of Bank Indonesia
8.	Mortgage	1. Fatwa No. 25: Shariah Pawning (Rahn) 2. Fatwa No. 26: Gold Shariah Pawning 3. Fatwa No. 68: Tasjiliy Pawning (Rahn Tasjily)
9.	*Sukuk*	1. *Fatwa No. 69: Indonesia Sovereign Sukuk* 2. Fatwa No. 70: Issuing Methods of Shariah State Securities 3. Fatwa No. 72: Shariah States Securities, Sale and Lease Back 4. Fatwa No. 76: SBSN ijarah *asset to be leased*
10.	Saving Products	1. Fatwa No. 1: Currrent Account 2. Fatwa No. 2: Saving Account 3. Fatwa No. 3: Investment Account 4. Fatwa No. 24: Safe Deposit Box
11.	Multi Level Marketing	1. Fatwa No. 75: Shariah Multi Level Marketing 2. Fatwa No. 83: Shariah Multi Level Marketing Umrah
12.	Islamic Card	1. Fatwa No. 42 : Syariah Charge Card 2. Fatwa No. 54 : Syariah Card
13.	Musyarakah	1. Fatwa No. 8 : Musyarakah Financing 2. Fatwa No. 55 : PRKS Musyarakah 3. Fatwa No. 73: Musyarakah Mutanaqisah
14.	Money Market	1. Fatwa No. 28: Forex Exchange (Al-Sharf) 2. Fatwa No. 37: Shariah Interbank Money Market 3. Fatwa No 78: Mechanism and Instrumen for Shariah Interbank Money Market
15.	Trade	3. Fatwa No. 5: Salam 4. Fatwa No. 6: Istishna' 5. Fatwa No. 22: Parallel Ishtisna'
16.	Ijarah / Leasing	1. Fatwa No. 9: Ijarah Financing 2. Fatwa No. 27: Al-Ijarah Al-Muntahiyah Bi Al-

		Tamlik 3. Fatwa No. 56: Review of Ujrah in Islamic Financial Institutions
17.	Hawalah	1. Fatwa No. 12: Hawalah 2. Fatwa No. 58: Hawalah bil Ujrah
18.	Revenue of Islamic Financial Institutions	1. Fatwa No. 14: System of Profit Distribution in Islamic Financial Institutions 2. Fatwa No. 15: Principle of Profit Distribution in Islamic Financial Institutions
19.	Financing	1. Fatwa No. 29: Haji Financing 2. Fatwa No. 30: Syariah Current Account 3. Fatwa No. 44: Multi Service Financing 4. Fatwa No. 45: Line Facility (At-Tashilat As-Saqfiyah)
20.	Payables and Receivables	1. Fatwa No. 19: Qardh 2. Fatwa No. 17: Penalty for debitur 3. Fatwa No. 31: Hiwalah 4. Fatwa No. 67: Shariah Factoring 5. Fatwa No. 79: Qardh using Debitur Fund
21.	Guarantee	1. Fatwa No. 11: Kafalah 2. Fatwa No. 74: Shariah Guarantee
22.	Others	1. Fatwa No. 10: Wakalah 2. Fatwa No. 18: Reserve of Productive Asset Write Off in Islamic Financial Institution 3. Fatwa No. 43: Ta'widh 4. Fatwa No. 62: Ju'alah 5. Fatwa No. 71: Sale and Lease Back 6. Fatwa No. 82: Shariah Commodity Trading

Source: www.mui.or.id (2012)

From the table above, it appears that Islamic financial institutions in Indonesia have varied products. Until now, Islamic economists continues to carry out the development of other products to comply with the Shariah principles. Islamic banking products are not only based on murabahah. The other option is the usage of hybrid contracts.[17] Some examples of these contracts are: 1. Contract

[17]In Arabic term, there are many terms referedd to *hybrid contracts* as *al-'uqūd al-murakkabah, al-'uqūd al-mujtami'ah, al-'uqūd al-muta'addidah, al-'uqūd al-mutakarrirah, al-'uqūd al-mutadākhilah*, and *al-'uqūd al-mukhtāliṭah*. This contract defined as an agreement the two parties to carry out a contract that contains two or more like a contract of sale with a lease, grant, power of attorney, qard, muzara'ah, sarf (currency exchange), Shirkah, mudarabah, and others that all legal consequences-contract agreement that is collected, as well as all rights and obligations thereof is seen as a unity that cannot be separated as a result of the law of contract. Lihat, Nazīh Hammād, *Al-'Uqūd al-Murakkabah fī al-Fiqh al-Islāmiy* (Damaskus: Dār al-Qalam,

of Take Over 2. Ijarah wal Kafalah on credit cards; 3. Mudarabah wal wadi'ah on the Giro; 4. Wa'ad to wakalah, murabahah , etc. on the Financing of Current Account; 5. Wakalah wal Murabahah on Murabahah basītah; 6.Wakālah bil ujrah on L/C, RTGS, general insurance, factoring; 7. Ijarah wal Kafalah on LC, Bank Guarantee, multi services/multi-usage finance, credit card, 8. Mudarabah wal Murabahah/Ijarah/istisna' on the financing of the cooperative employees; 9. Hiwalah bil ujrah on factoring; 10. Rahn Ijarah wal on REPO SBI and SBSN; 11.Qarḍ, Rahn and Ijara in gold pawning products in Islamic banking, and others.

The above explanation shows that the contract-agreement contained in Islamic banking can be developed to boost the market share of Islamic banking in Indonesia. A number of literature shows that there is a strong relationship between banking product innovation and market development,[18] including the development of Islamic banking market.[19] This suggests that the more innovative Islamic banks, the higher the market will be. On the other hand, weak product innovation in Islamic bank will impact significantly to the slow development of the market (market expansion). Therefore, Islamic bank must immediately find a way out to make acceleration occurs.

The acceleration also needs a good coordination between Bank Indonesia and National Shariah Board. Until now, Islamic banking in Indonesia faces 2

2005), cet. ke-1, 7. The usage of this contract has fulfill two conditions: 1. Sharia doesn't not forbid the mixture of the contracts; 2. This mixture is not *ḥīlah* to forbidden one (interest). See, Abdullāh bin Muḥammad bin 'Abdullāh al-'Imrāni, *Al- al-'Uqūd al-Māliyah al-Murakkabah: Dirāsah Fiqhiyyah Ta'ṣḥīliyyah wa Taṭbīqiyyah* (Riyād: Dār Kunūz Isybilia li al-Nasyr wa al-Tauzī', 2006), cet. ke-1, 45.

[18]Chux Ghervase Iwu, "Impact of product development and innovation on market share." *African Journal of Business Management* Vol. 4 (13), 4 October, 2010: 2659-2667. Mnyana Ranku, *The Relationship Between Market share and New Product Launch in FMCG* (Pretoria: Gordon Institute of Business Science University of Pretoria, 2009), Catherine M. Banbury, "The Effect of Introducing Important Incremental Innovations on Market Share and Business Survival." *Strategic Management Journal* Vol. 16, (1995): 161-182.

[19]Dato' Wan Ismail Wan Yusoh, "Product Development and Innovation Towards Sustainability of Islamic Finance Industry." *Specialised Workshop in Islamic Finance: Joint High level conference in Islamic Finance*, Bank Indonesia-Bank Negara Malaysia, Jakarta, 19 July 2011, Peter Vayanos dkk, *Competing Succesfully in Islamic Finance* (New York: Booz & Company Inc. 2008). Gillian Rice dan Essam Mahmoud, "Integrating Quality Management, Creativity and Innovation in Islamic Banks." *American Finance House - Lariba 8th Annual International Conference*, Pasadena, CA, June 16, 2001.

(two) major challenges in developing innovative Shariah compliant products as follows:[20]

1. The differences between what constitutes shariah compliant. When the National Shariah Board approves a product, it does not necessarily mean that Bank Indonesia will concur and vice versa. As the result, this leads to a lengthy process for Islamic banking in launching their products and services to the market.

2. The fatwas issued by Shariah National Board do not discuss the detailed business operation models. The absence of detailed process creates uncertainty for islamic bankings in structuring and executing the products within the shariah parameters stipulated by the Shariah National Board.

ISLAMIC MICRO BANKING DEVELOPMENT

The existence of BMT has made the development of Islamic economics especially in Indonesia to be quite unique. BMT also inspired the emergence of microfinance institutions[21] such as Shariah Cooperative (KJKS). Until now, these institutions are growing rampant in urban and rural areas. The number is expected to be more than 3000 units. With the structure of the Indonesian economy which is 99 % dominated by SMEs, the role of BMT/KJKS become special in meeting the needs of shariah based financial services for the people in middle and lower segments. With a large number of SMEs and BMT/KJKS, Indonesia deserve to be called as a leader in the application of Islamic Microfinance.

Currently, Indonesia can even be regarded as a good model of Islamic and conventional microfinance. This condition also puts Indonesia as a pilot country for microfinance applications. In some forums, workshops, conferences or

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[20]Humayon Dar, *Global Islamic Finance Report 2012* (London: Edbiz Consulting Limited, 2012), 122

[21] Islamic Microfinance is a social bank model was used firstly in Egypt in the 1960s with the establishment of the Mit Ghamal. See, Mehmet Asutay, Islamic Microfinance: Fulfilling Social and Developmental Expectations dalam, Adam Durchlag and Thomson Reuters, *Islamic Finance: Instruments and Markets* (London: Bloomsburry, 2010), 29.

comparative studies, the Indonesian experience in applying Islamic micro institutions is always be a hot topic to discuss.[22] This condition is very excited as well as a challenge for Indonesia and the Islamic economics community.

One effort that must be done is to make standardization of Islamic micro banking institutions (BMT). Standardization can be performed on 3 things:

a. Local People . This is implemented for the banking community that has a high level of acceptability and low NPF.
b. Products. This is implemented for the supermarket banking which will increase high loyalty.
c. Process. This is implemented for the modern banking that will lead to higher efficiency and profitability.

CONCLUSION

1. Islamic banking in Indonesia uses a different model i.e commercial retail banking. This model is different from the models used in other countries which is focused on investment banking.
2. The best strategy to increase the market share of islamic banking is accelerated or double accelerated growth. This strategy is more appropriate than the strategy of organic or inorganic growth. By using this strategy, BI issues the regulation to the banks to allocate 10-20% of its asset to islamic units or SMEs.
3. The acceleration of Islamic banking in Indonesia needs a good coordination between Bank Indonesia and National Shariah Board.
4. The development of microfinance institutions (BMT) should be improved by standardizing the institutions.

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[22]http://abiaqsa.blogspot.com/2011_05_01_archive.html diakses tanggal 1 April 2012.

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