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THE GROWTH OF SHARIA BANKING IN ASIA

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Abstract

In the early days of the development of sharia banking between the period 1980-1990, the sharia banking industry focused only on the Middle East and Southeast Asia, or on countries that have a majority Muslim population. Since then sharia banking has grown very rapidly beyond 75 countries in the world. Sharia banking is believed to be the solution to the problems faced by banks today, from the only "basic banking" in the 1990s, the sharia banking industry developed wings to broader segments such as sukuk (sharia bonds), management assets, and takaful sharia insurance) The growth of sharia banking assets from USD 150 billion in the 1990 period became USD 1.9 Trillion at the end of 2013, and was predicted in 2020 to be USD 6.5 Trillion. At present, sharia banking dominates 80.4% in "sharia financial assets". Sharia banking is currently an alternative choice for conventional banking, not only growing in Muslim countries but also in other countries.

Keywords: Banks; Sharia; Sukuk; Asset Management; Takaful.

1. Introduction

Islamic banking or what we know as Sharia banks prohibits the application of interest or what is commonly called usury in each transaction. Islamic law strictly prohibits various interest additions in returning to financial transactions, so that the rate of return on investment returns must refer to real economic activities, and contracts agreed on the share of the agreement. Distribution is not only in profit but also in risk because Islamic banking highly upholds the values of justice.

In addition to banning interest (usury), Molyneux (2010) has added several other principles such as banning gambling and other activities which are prohibited by Islamic rules (such as banks financing casinos, alcohol producers, etc.) and prohibiting Gharar. Gharar's prohibition means that the terms and conditions contained in a contract that have implications are not clearly understood by other parties. This concept is the same as what we call asymmetric information which is the difference in information held by the parties involved in the contract. When there is a situation where one party can take very large profits from the other party through the contract, it can be said that the contract is anti-Islamic (Molyneux, 2010: 3).

The difference between Islamic and conventional banking is also explained by Aburime and Felix (2009). They pointed out that there are six operating differences between conventional banks and sharia banks. The first is the prohibition of interest. Islamic banking never charges fees or interest on loans. In principle, loans are given based on additional costs or mark up on loans. The second is the emphasis on Islamic moral principles. Islamic banks operate based on shari'ah rules known as fiqh al-muamalat in conducting transactions. This rule places morality as the most important thing, because it relates to Islam. Therefore Islamic banking is prohibited from investing in businesses that are not moral, or illegitimate, such as businesses that sell alcohol or pork, gambling, and businesses that produce media whose content is gossip or pornography. The third is the emphasis on guarantees. The difference between sharia banks and conventional banks is also found in this aspect. Conventional banks tend to finance projects that have strong collateral value, where sharia banking tends to consider the sustainability of the project and the profitability of the operation itself, not on the amount of collateral. The fourth is the certainty of deposits and income. For Islamic banking, there are many types of receipts because Islamic banks do not charge interest rates. In other words, when conventional banking guarantees depositors at a certain interest rate at the outset, Sharia banking does so with the principle of sharing profits and losses and not guaranteeing benefits to both banks and customers. The fifth is liquidity risk and solvency. Sharia banking tends to have a high risk of liquidity and lower risk of solvency because they are more skilled in terms of equity and trade financing. (Anwar, 2016: 310)

Sharia banking in Indonesia has grown increasingly after seeing empirical evidence that sharia banking in the world and Indonesia are not so affected by the crisis experienced by many countries including Indonesia. The monetary crisis has made many banks liquidated in Indonesia and also experienced globally by other banks in the world when affected by the monetary crisis. Sharia banks have proven that the system implemented in Islamic banking can guarantee the welfare of banks and the public as customers while maintaining bank assets and customers in difficult situations.

As a country with an open economy, Indonesia does not escape the effects of the dynamics of global financial markets. Including the impact of the financial crisis that began in the United States, which hit other countries, and then expanded into a global economic crisis that was felt since the second half of 2008. The International Monetary Fund (IMF) predicted a slowdown in world economic growth of 9% in 2008 to 2.2% in 2009. This slowdown of course will in turn affect the performance of national exports, which in turn has an impact on the rate of national economic growth

The exposure of sharia banking financing is still directed more to the domestic economic activities, so it does not have a high level of integration with the global financial system and does not yet have a high level of transaction sophistication; are two factors that were assessed as having been in the first 2 months of 2009 sharia banking service networks experienced an addition of 45 office networks. Until now there have been 1492 branches of conventional banks that have sharia services. Geographically, the current deployment of the sharia banking office network has reached communities in more than 89 districts / cities in 33 provinces.

The growth performance of sharia bank financing remained high until the position in February 2009 was good financing performance (NPF, Net Performing Financing below 5%). Funding by sharia banking as of February 2009 consistently increased with a growth of 33.3% in February 2008 to 47.3% in February 2009. Meanwhile, the value of financing channeled by sharia banking reached Rp.40.2 trillion. Once again the sharia banking industry shows its resilience as one of the pillars supporting national financial system stability. With the industry's growth performance reaching an average of 46.32% in the last five years, sharia banks in Indonesia are expected to continue to experience high growth in 2009.

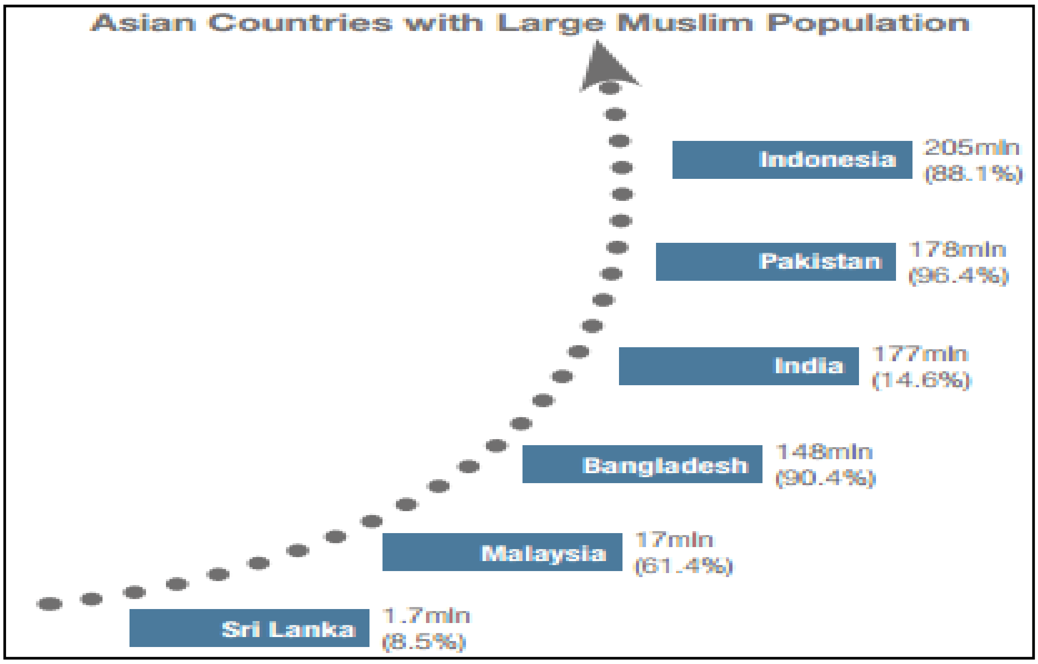

Fig 1: Muslim Population

Indonesia is a country with the largest Muslim population in the world, with a Muslim population of around 205 million. This large Muslim population is a great potential for the development of sharia banking. This sharia banking began to get the attention of the government with the issuance of laws that support sharia banking. In 1992 the first sharia bank, Bank Muamalat Indonesia, officially operated. After that several other sharia banks emerged, both in the form of full pledge systems and in the form of a dual banking system. Support for the development of

Islamic banking also came from the Indonesian Ulema Council (MUI) and Muhammadiyah community organizations marked by the issuance of a fatwa for bank interest prohibition.

2. Literature Review

Asia is an important part of the great strength of the global economy and Islamic economy, this region is the largest home of Muslims in the world, the Asian region consists of several countries that have a Muslim majority. Asia is also a major force driving the global economy, currently in Asia Islamic finance is dominated by Islamic banks and the sukuk sector.

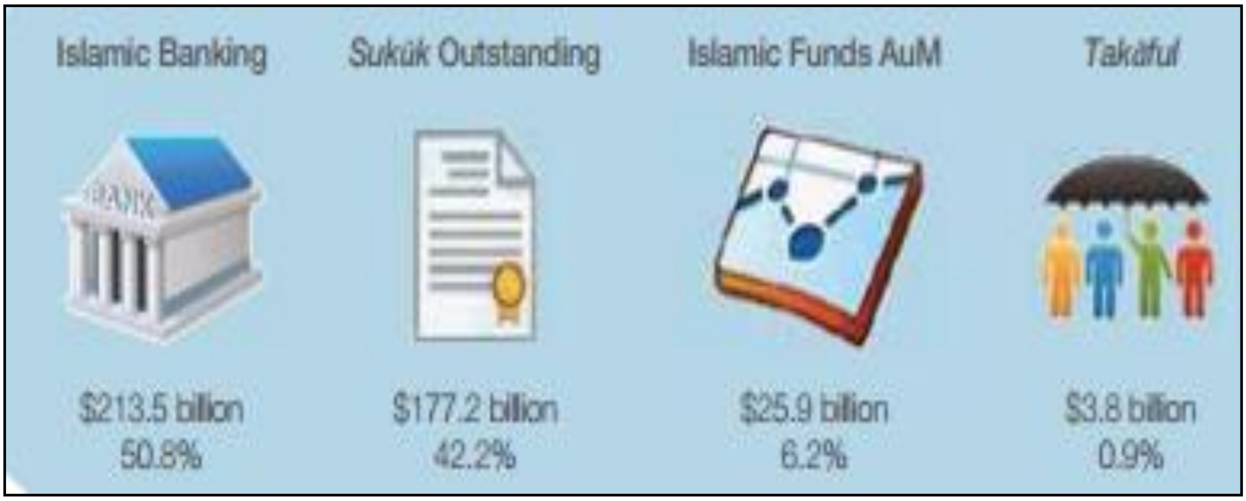

Fig 2: Finance Landscape in Asia (End-2013)

The momentum of significant growth in Islamic finance is driven by several factors. The Islamic Financial Institution (IFI) seeks to provide better financing as an alternative in the global economic system, framed by the boundaries set out in the principles of sharia law. These institutions run in parallel with conventional financial institutions because they have more or less the same products, except that there are some differences especially in their philosophy and operations.

Sharia banking in Asia has witnessed an increase in sharia banking that continues to grow with newcomers, and also from conventional banks that have previously opened new sharia businesses with a dual banking system. Awareness began to grow as the performance of sharia regulations turned out to be in great demand by Muslims and non-Muslims, awareness of this performance made increasingly rapid growth in sharia banks. Among countries in Asia that have laws and strongly support the growth of sharia banking in their countries are Malaysia, Bangladesh, Pakistan and Brunei Darussalam. Malaysia is one of the global leaders in the growth of sharia banks, having a market share of 10% of sharia banking assets globally at the end of 2013. Compared to Indonesia, Pakistan and Brunei Darussalam have a smaller market share, but continued regulation changes in recent years have increased growth in these countries.

MENA (Middle East and North African) is the leader in the sharia banking industry, MENA including the GCC (Gulf Cooperation Council) country is a political and economic alliance of six Middle Eastern Arab countries including Saudi Arabia, Kuwait, United Arab Emirates, Qatar, Bahrain and Oman. GCC was established in Riyadh, Saudi Arabia, in May 1981 and also includes other Asian countries included in MENA. World sharia banks are currently led by several countries such as Saudi Arabia, Malaysia, the United Kingdom, the United Arab Emirates, Kuwait, Qatar, and Turkey. These countries are one of the initiators and drivers of the growth of sharia banks in the world. We can see the development of sharia banking in banking products and services that are increasingly innovative at this time. The product's reach to the market has grown along with the development of technology that supports the development of banking products. The Islamic bank industry jointly develops services to customers as found in previous conventional banks.

Country	Islamic Banking Assets (USD bln)	Share of Global Islamic Banking Assets (%)
Saudi Arabia	237.2	16.7
Malaysia	127.8	9.0
UAE	91.5	6.5
Kuwait	78.6	5.5
Qatar	55.2	3.9
Turkey	42.2	3.0
Bahrain	26.0	1.8
Indonesia	21.1	1.5
Pakistan	8.5	0.6

Fig:3 Key Islamic Banking Market

3. Discussion

Asia is a place for expansion of sharia banking, so many new sharia banks and potential markets in Asia, this is indicated by several conventional banks opening businesses in sharia banking. The fact is that sharia banks currently answer the needs not only for Muslims but also for non-Muslims. Some other Asian countries have a large Muslim population like India but have not been fully utilized, sharia banks are expected to expand to several major industrial countries in Asia such as China, Hong Kong, Japan and South Korea. These countries are potential markets for the future of sharia bank.

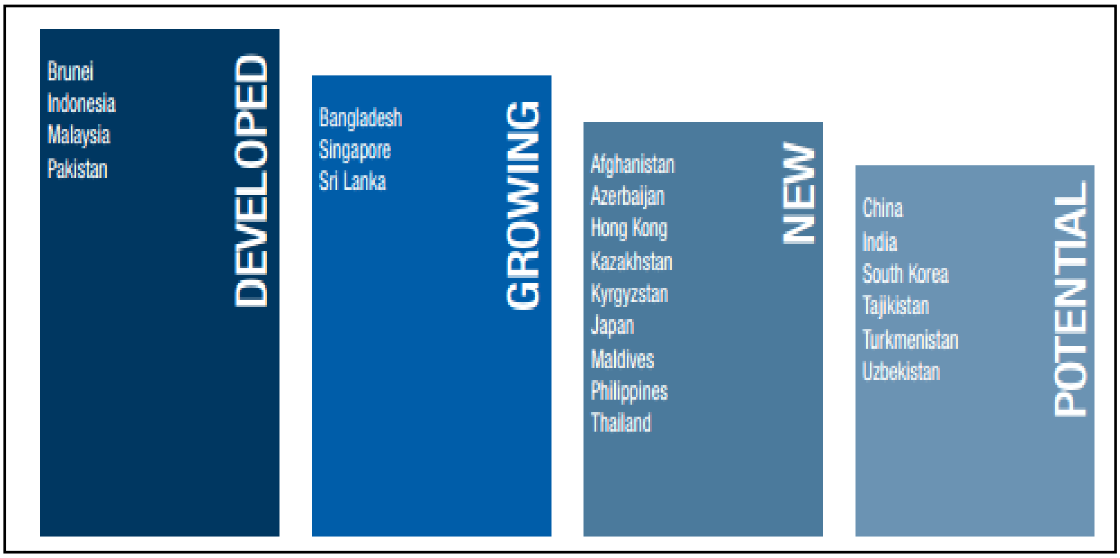

Fig 4: Asian Islamic Banking Industry

Finally, The Southeast Asia region is one of the regions that has become the center of development of the sharia banking and financial industry in the world. Indonesia and Malaysia are the two countries in the region which are the drivers of the development of the industry in the Southeast Asia region. With the development of the sharia banking and financial system in the world,these two country encouraged countries in the region to also participate in developing the sharia finance industry. Especially in 2015 there was economic integration of ASEAN countries where the sharia finance sector was part of it.

The development of the sharia banking and financial system in ASEAN countries has their respective variations. Malaysia has become the fastest growing country in the industry with a total sharia banking market share that has reached around 26% of the total national banking assets. Historically, Malaysia has developed the concept of sharia finance since 1963 through the establishment of Malaysian Hajj Savings. The presence of the Sharia bank law (IBA 1983) became the basis for the establishment of Malaysian sharia banks in 1983. The sharia banking system then developed rapidly through the liberalization policy of the sharia financial sector by inviting foreign parties to open sharia banks in Malaysia. The next policy is to provide opportunities for conventional banks to offer sharia banking and financial products through the subsidiary and Islamic window scheme, this policy is based on the 1989 BAFIA Law. TheIFSA Law 2013 is the latest law governing sharia financial institutions in Malaysia.

Indonesia is also a country in ASEAN which is currently aggressively developing the sharia banking and financial system. Unlike the Malaysia that uses a state driven approach, the Islamic banking industry in Indonesia is more driven by the market (market driven). So the results are also different, sharia banking currently only has a market share of around 4.8% of the total national banking. sharia banking in Indonesia has experienced a momentum of accelerated growth since the enactment of Law No. 21 of 2008 concerning Sharia Banking.

In addition to the two ASEAN countries, sharia banking is also developing in Brunei Darussalam. This country is one of the most populous Muslim countries developing the sharia finance industry. Singapore as a Muslim minority country neighboring Malaysia and Indonesia also has ambitions to develop the sharia finance industry. Even the country has self-proclaimed to be the center of Islamic finance in the Asian region even in the world. This ambition is certainly supported by the reputation of Singapore as a financial center in the world so far.

Apart from Singapore, as a minority Muslim country, the Philippines and Thailand also become ASEAN countries that develop sharia banking and financial systems. Both countries already have sharia banks that specifically serve Muslim populations in each of these countries. The regulatory system in the Philippines and Thailand has accommodated the existence of sharia banks by ratifying the Law on Islamic Banking in each of these jurisdictions.

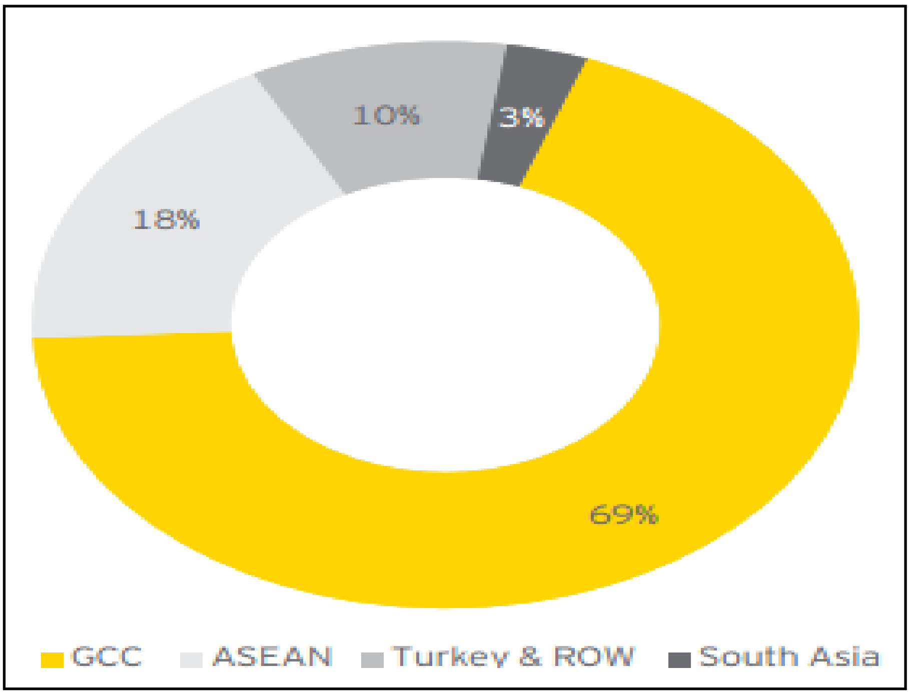

Fig 5: EYWorld Islamic Banking Competitiveness Report

We can see that large growth and dominance occurred in GCC countries, while in other Asian countries it grew slowly. Despite the insignificant growth, sharia banking in other Asian countries expanding the market potential of sharia banks in Asia. ASEAN began to see its contribution to the growth of sharia banks in 2014, driven by policies from the government that encouraged growth in sharia banking, Malaysia and Indonesia were large markets of sharia banks which were expected to contribute greatly to the growth of Islamic banking.

The GCC countries are still at the forefront of Islamic economics, from above we can observe Saudi Arabia and Kuwait have a large contribution in national and global scale. ASEAN region is only Malaysia which has a significant contribution both nationally and globally, while Indonesia for a country that has the largest number of Muslims in the world is still very low, only 3.7% in the national and 2.5% in the global. The lack of education and marketing and the introduction of sharia bank products remain the main obstacles to the slow growth of Islamic banks in Indonesia.

The history of the banking system in Saudi Arabia began with the establishment of the Saudi Arabian Monetary Agency (SAMA) in October 1952. The establishment of this body was proposed by the IMF as a program to develop a country's monetary system. In 1957, Al-Rajhi Bank was the first Islamic bank to be established in Saudi Arabia. At present Al-Rajhi Bank is the largest Islamic bank in the world in terms of market capitalization with total assets of US $ 33 billion and market capitalization of US $ 4 billion. After that came other Islamic banks such as Alinma Bank, Algerira Bank and Albilad Bank.

To strengthen its financial industry, Saudi Arabia strengthened cooperation between the Gulf countries with the establishment of the Gulf Cooperation Council (GCC) on May 25, 1981 consisting of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. Thepurpose of establishing the GCC is to influence coordination, integration and inter-relations between member countries in all fields, strengthen relations between their people, formulate the same regulations in various fields such as economics, finance, trade, customs, tourism, law, administration, and the advancement of scientific and technical development of industrial, mining, agricultural, water and animal resources, building scientific research centers, preparing joint ventures, and promoting private sector cooperation.

In the GCC region, Saudi Arabia is the largest market with an average annual growth of 3.2% which is estimated between 2011 and 2015 an economic boom set at 4.2%. For the banking sector only, Saudi Arabia has the highest proportion in the world of sharia banking assets against total banking assets exceeding 20%, because all the banks there have operations that are in accordance with sharia principles, ranging from fully Islamic banks to the new opening sharia bank. The Saudi Arabian banking sector currently consists of 22 commercial banks, including 12 local banks and 10 Gulf branches and foreign banks. Of the 12 local banks, there are four banks (Al-Rajhi, Al-Jazira, Al-Bilad and Al Inma Bank) that have become Sharia Commercial Banks.

With great potential in fields such as Real Estate, Private Equity, Infrastructure and Project Financing, and Capital Market growth through Sukuk issuance, investment prospects for the Kingdom of Saudi Arabia for Islamic finance are very positive. The growth of Saudi Arabia's population has far surpassed infrastructure development in the UK in various sectors, be it water, electricity, transportation, ports, light and social infrastructure such as health and education. From a legal standpoint, compared to the other five members of the GCC Saudi Arabia is probably the most open to foreign investment, because there are regulations that have been revised by the Saudi Arabian Monetary Authority and the Capital Market Authority to open markets and encourage foreign investment and talent into the country.

4. Conclusion

In the Asian region sharia banking has a fairly good growth, especially in countries that do have a majority of Muslims, based on data, Indonesia which has the largest number of Muslims in the world is still behind the growth of Malaysian sharia banking, the government's role in supporting sharia economics is an important factor.

Sharia economy is becoming known by the world, many countries that are not the majority of Muslims are starting to open sharia banks, because sharia economics is considered safer than the conventional economy that exists today.

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