

# MASLAHAH AND STRATEGY TO ESTABLISH A SINGLE STATE-OWNED ISLAMIC BANK IN INDONESIA

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## Abstract

**Objective** - The market share of Islamic banking in Indonesia has continually decreased from 4.89% in 2013 to 4.85% in 2014 and 4.83% in 2015. As a result, the idea to establish a single state owned Islamic Bank occurs. This conceptual paper aims to contribute the *maslahah* framework regarding the future of Islamic banks in Indonesia.

**Methods** - The methodology that used in this paper is a qualitative method which supported by quantitative data that align with the theory of the benefit of the *Ummah (maslahah)* and the community theory.

**Results** - The breakthrough to increase the market share and deliver Indonesia becoming an Islamic financial hub is the option to convert the BRI as the biggest retail bank to a full fledge Islamic bank, and the next action is to acquire the Islamic banks which are subsidiary of conventional state-owned banks (Bank Syariah Mandiri-BSM, Bank Nasional Indonesia Syariah-BNIS, Bank Rakyat Indonesia Syariah-BRIS, and Bank Tabungan Negara Syariah-BTNS).

**Conclusions** - Establishing a single state owned Islamic bank is beneficial for the future of Islamic banks in Indonesia

Keywords: State-owned Islamic bank, Conversion, Acquisition

JEL Classification: G02, G14, G21

## Abstrak

**Tujuan** – Pangsa pasar perbankan syariah di Indonesia terus mengalami penurunan dari 4,89% di tahun 2013 ke 4,85% di tahun 2014 dan 4,83% di tahun 2015. Akhirnya, muncullah gagasan untuk mendirikan Bank syariah milik Negara. Penelitian konseptual ini bertujuan untuk memberikan kontribusi kerangka kerja masalah terkait masa depan perbankan syariah di Indonesia.

**Metode** – Metode yang digunakan dalam penelitian ini adalah metode kualitatif didukung dengan data kuantitatif yang bersinggungan dengan teori masalah dan teori komunitas.

**Hasil** – Terobosan untuk meningkatkan pangsa pasar dan menjadikan Indonesia sebagai pusat keuangan Islam adalah pilihan untuk mengkonversi BRI sebagai bank retail terbesar menjadi Bank Umum Syariah, kemudian dilanjutkan dengan akuisisi bank syariah lainnya yang merupakan anak perusahaan dari bank konvensional milik negara. (Bank Syariah Mandiri-BSM, Bank Nasional Indonesia Syariah-BNIS, Bank Rakyat Indonesia Syariah-BRIS, and Bank Tabungan Negara Syariah-BTNS).

**Kesimpulan** – Mendirikan hanya satu bank syariah milik negara adalah bermanfaat bagi masa depan perbankan syariah di Indonesia.

Keywords: State-owned Islamic bank, Conversion, Acquisition

JEL Classification: G02, G14, G21

**1. Introduction**

Indonesia is the fourth largest population in the world, and more than 85% of the population are Muslims. That makes Indonesia, the country with the largest Muslim population in the world (Pew Research Center, 2015). On the other side, Indonesia also has big portions of middle class, according to the data from Bank Indonesia (BI) 2010 is 56.5% of the total Indonesian population (Pew Research Center, 2015). Statistical data from the Central Bureau of Statistics in 2010, the population of Indonesia is 237.641.326 people, so that the number of Muslims in Indonesia are 201.995.127 people and the middle class population of Indonesia is 134.267.349 people. Based on those data, Indonesia is an attractive economic potential (emerging markets) to develop Islamic banking.

Emerging markets are countries with rapid economic growth. These countries are generally located in the eastern part of the world that are characterized by having a high number of populations such as Brazil, Russia, India, China and Indonesia (Uribe and Yue, 2006). Furthermore, the emerging market creates a high demand in the *Shariah* industries such as fashion, travel, hotel, food, etc. (Alamsyah, 2013) and also a very prospective potensial market for Islamic banking, especially in Indonesia. This is indicated by the data assets of Islamic banking growth year on year (yoy) in September 2013 reached 35%. The growth is the highest achievement in Islamic banking industry in previous years and even exceed conventional banking assets yoy growth which is only reached 17.4%. Furthermore, the average growth of the Islamic banking in the world is 15% to 20% per year (Alamsyah, 2012). The comparison of data between the Islamic banking growth and conventional banking growth yoy are as follows (Indonesian Banking Statistic and Indonesian Islamic Banking Statistics, December 2015):

Table 1 Data yoy Asset Growth in Banking Business

	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
Conventional Banking	18.73%	21.40%	16.69%	16.23%	13.34%	9.12%
Islamic Banking	47.55%	49.17%	34.06%	24.23%	12.41%	8.78%

Source: Indonesian Banking Statistic and Indonesian Islamic Banking Statistic, December 2015

According to Table 1 Islamic Banking growth in Indonesia between 2013 until 2015 has decreased compare to the 2010 to 2012 period when the asset growth rapidly grew. It showed that the growth of Islamic Banking does not sustain among the year. The impact of the decreasing is the decline of the Islamic Banking market share as follows:

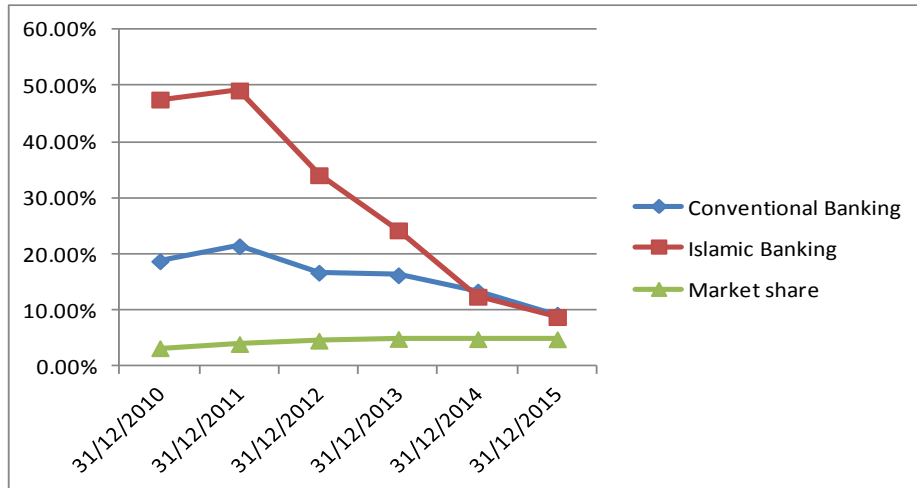


Figure 1 Market Share of Islamic Banking

Source: Indonesian Banking Statistic and Indonesian Islamic Banking Statistic, December 2015

Table 2 Maket Share of Islamic Banking

Year	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015
Market Share	3.24%	3.98%	4.58%	4.89%	4.85%	4.83%

Source: Banking Statistics Indonesia and Indonesian Islamic Banking Statistics, December 2015

Based on the conditions above (Figure 1), the growth of Islamic banking in Indonesia has decreased since 2010 until 2015. In the otherside, there is also the great challenges that immediately facing in the near future, the ASEAN Economic Community from 2015 to 2020. Based on the asset scale perspective, Islamic banking in Indonesia has a lower asset than Islamic banking in Malaysia, even though Malaysia has a fewer Moslem population than Indonesia. There are currently two Islamic banks (Bank Syariah Mandiri and Bank Muamalat Indonesia) in Indonesia which reach the asset above Rp40 trillion but still below Rp70 trillion. While in other ASEAN countries, they have more than one Islamic banks that its assets had reached Rp175 trillion (Alamsyah, 2013). Related to this condition, there is a large gap between the Indonesian Islamic banking assets with Islamic banking assets in ASEAN countries which could lead to the exploitation of the potential opportunities in Indonesian economy if domestic banks can not prepare business strategies to anticipate the future competition in the ASEAN region. Therefore, to catch up with ASEAN countries, it is necessary to support Islamic Bank business with the government policies and regulation in term of the existence of Islamic banking to meet the needs of the Indonesian Muslim community financial transaction services.

The interest of the world community towards Islamic banking in the aftermath of the global economic crisis has increased since the Islamic finance, particularly Islamic banking the alternative to reduce the possibility of a global economic crisis in the future. This is due to

Islamic banks that have market discipline which is able to monitor and to maintain between the balance of credit or financing growth with the real sector growth (Ahmed, 2010). In addition, compare to conventional banks, Islamic banks aims at not only improving its financial performance, but also on the distribution of welfare such as poverty alleviation (financial access for the poor and remote communities) and also providing care in realizing social welfare for the people. These concerns are also aligned with the Islamic bank's commitment to achieve economic objectives of Islam (*maqashid sharia*) which includes social justice, equitable distribution of income and wealth and economic development supports (Dusuki, 2008.).

The challenges of development and growth of Islamic banking in Indonesia are different from Islamic banking in other countries. The impact is on the stagnation condition of Islamic banking growth in Indonesia. This stagnancy of Islamic banks in Indonesia also can be traced by the histories. The history and the causes of the establishment of Islamic banks in various countries including in Indonesia is as follows (Syufaat, 2011, Nugroho and Chandra, 2014):

The development of Islamic banks in Europe is an alternative for investors from the Middle East to keep their funds as a result the blessing of petrodollars. Furthermore, the United Kingdom impose a policy to encourage conventional banks to maintain the fund from Middle East investors and provide incentives and facilities for conventional banks to open *sharia* services in the country.

The development of Islamic banking in Malaysia is driven by the government's role by making policies which result in the rapid growing of Islamic banks (government driven). The development of Islamic banking in Malaysia occurs because it has the desire to become a hub for international Islamic funds. Malaysian government policies and regulations, in the form of tax breaks and incentives to get license and placement of public funds in Islamic banks, become a potential opportunity for investors to open Islamic banks. A milestone in the establishment of Islamic banking is the establishment of Bank Islam Malaysia Berhad (BIMB) in 1984.

The Islamic Banking in Indonesia develops fairly late because Indonesia has not only a secular constitution which separates between religion and economic activity, but also it is because of the Pancasila (five pillars) as the Indonesian fundamental way of life which recognizes the freewill of people to hold a religion as their values (Christian, Budha, Hindhu, Catholic, Kong Hucu, and Islam) even though the majority population in Indonesia is Moslem, which is around 85% (Bureau statistic of Indonesia, 2010). The Muamalat Bank is the pioneer of Islamic Bank in Indonesia. Bank Muamalat was founded in 1992 caused by the encouragement and demand of the association of Muslim scholars (ICMI), an association of the scholars (MUI) and several

Muslim businessmen. The reason for the request is the presence of Islamic banks are very important to support business activities and also to the principles of Islam as a whole (*Kaffah*).



Figure 2 The Development of Islamic Bank Among Countries in The World  
Source: Nugroho and Chandra, 2014

The reasonable thing when Indonesian Islamic Banks has not been able to compete with Islamic Banks in other countries is because they have long existed and have the support from the community, government policy and regulation, and legislation that specifically regulate the Islamic banking system.

The objective and contribution of this paper is to support the government to establish the state-owned Islamic Banking (BUMN) in Indonesia in order to create a benefit the community (Ummah) as an effort to maintain the five basic requirements (*maqasid sharia*), which are religion, life, intellect, lineage and property (Rivai, et.al, 2012). Governments have an important role in realizing the economy that brings prosperity through economic justice and income inequality (Chapra, 2001). The verses of the Qur'an which show the importance of the government role are as follows:

يَا أَيُّهَا الَّذِينَ آمَنُوا أَطِيعُوا اللَّهَ وَأَطِيعُوا الرَّسُولَ وَأُولِي الْأَمْرِ مِنْكُمْ فَإِنْ تَنَازَعْتُمْ فِي شَيْءٍ فَرُدُّوهُ إِلَى اللَّهِ وَالرَّسُولِ إِنْ كُنْتُمْ تُؤْمِنُونَ بِاللَّهِ وَالْيَوْمِ الْآخِرِ ۚ ذَلِكَ خَيْرٌ وَأَحْسَنُ تَأْوِيلًا

Meaning: "O you who have believed, obey Allah and obey the Messenger and those in authority among you. And if you disagree over anything, refer it to Allah and the Messenger, if you should believe in Allah and the Last Day. That is the best [way] and best in result (An-Nisa: 59)".

This verses related to the value of the government's role (Choudhury, 2010) that the public must accept. The Conditions of growth and market share in Indonesia nowadays need a government intervention because the Islamic Bank's market share in Indonesia still tends to decrease and during five years from 2010 to 2015 the market share still trapped below 5%. Government intervention is permitted in term of ensuring the community or Ummah which can carry out their religion in the case of worship and daily activity or muamallah in totality or kaffah, this is stated in Qur'an Surah Al-Baqarah: 208:

يَا أَيُّهَا الَّذِينَ آمَنُوا ادْخُلُوا فِي السِّلْمِ كَافَّةً وَلَا تَتَّبِعُوا خُطُوَاتِ الشَّيْطَانِ ۚ إِنَّهُ لَكُمْ عَدُوٌّ مُّبِينٌ

Meaning: "O you who have believed, enter into Islam completely [and perfectly] and do not follow the footsteps of Satan. Indeed, he is to you a clear enemy."

## **2. Research Methodology and Literature Review**

### *2.1 Research Methodology*

This research uses secondary data which consist of the annual report of state-owned banks and Islamic banks that exist as a subsidiary of state-owned banks by December 31, 2015. The data is from Bank Indonesia statistics and the Indonesian Islamic Banking Statistics 2015. The research method is based on a qualitative research framework supported by quantitative data to explain the evidence. The object of study is the amount of assets and human resources (employee/worker) of conventional banks that will be converted to Islamic Banks. The Analysis of the data includes the following stages:

1. Identify patterns of conversion of conventional banks into Islamic banks in Indonesia;
2. Analyze the benefit of conversion and acquisition of conventional state-owned banks to Islamic banking.

### *2.2 Literature Review*

Economic and financial crisis currently is experienced by almost all countries in this hemisphere and the chronology of the financial crisis that occurred at this time is as follows (Mitton, 2002):

1987 – 1990	:	US Savings & Loan Industry Collapse
1990	:	High Yield Debt Tumble ('Junk Bonds Crash') & Nikkei Crash
1991 – 1992	:	Gulf war market disruptions

- 1992 : European Exchange Rate Mechanism (ERM) Crisis
- 1994 : Unexpected US Interest Rate Increases and Bond Market Crisis
- 1994 : Mexican Peso Crisis
- 1995 : Latin American Crisis
- 1997 : Asian Currency and Debt Crisis
- 1998 : Russian Default Triggered Debt Crisis & Long Term Capital Management (LTCM) Collapse
- 1999 : Brazilian Crisis
- 2000 : ‘DotCom Crisis – ‘New Economy’ Technology, Media & Telecoms Bubble Burst’
- 2001 : World Trade Center Attack Triggered Credit Spread Widening
- 2002 : Enron Bankruptcy – Argentine Crisis – WorldCom Default
- 2003 : Iraqi War
- 2006 : Oil Price Rise Triggered Economic Dislocations
- 2007-2012 : ‘Sub Prime Mortgage’ Securitisation Triggered Global ‘Liquidity Crunch’, Credit Related Losses, Co Ordinated Global Markets Stimulus, Banking Regulatory Reform, and Financial institution Recapitalisation Measures, European Debt Crisis & Bank Capital Increases, etc.

The conditions that occur in the 2007-2012 creates an imbalance and causes financial crisis which can be simply described in the Figure 2.1 below (Masyita, 2015):

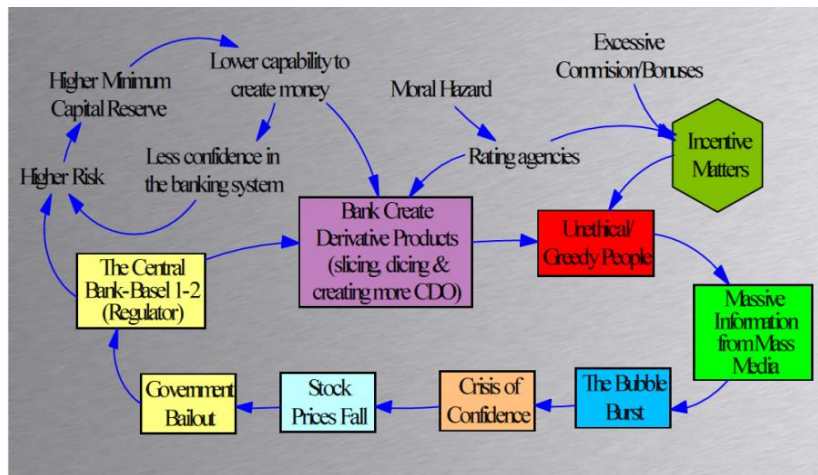


Figure 3 The Cause of Financial Crisis  
Source: Masyita, 2009

Conventional banks are forced to reform the problems that caused the global financial crisis. Some of those problems are derivative products that are not backed by real assets, the implementation of risk transfer in the application of interest rates, market prices do not correspond to the actual conditions and banking capital that can not cover the losses (Gupta, 2010). According Masyita (2015) the principles embodied in Islamic banking can be used as a

solution to prevent the financial crisis. Those principles are the prohibition mechanism "Maghrib": maysir (gambling and speculation), gharar (uncertainty) and riba (interest) and the objectives of Islamic banks is to create a social well-being does not to create a communities crisis (Arafah and Nugroho 2016). Furthermore, the role of Islamic principles in preventing the financial crisis can be explained in the figure below :

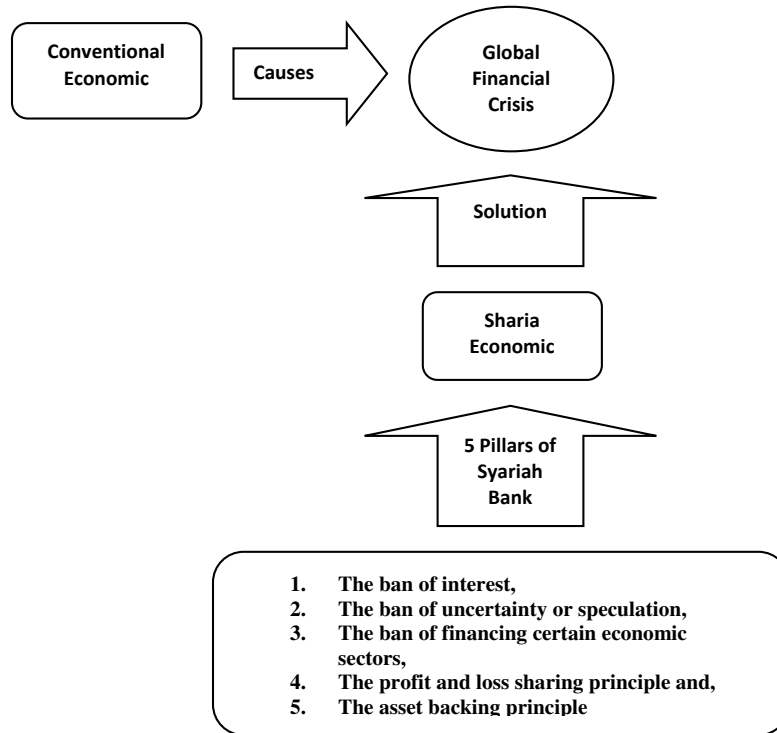


Figure 4 The Islamic Finance Principles as The Solution for Financial Crisis  
Source: Masyita (2015)

The global economic crisis affects the banking system in Indonesia. Islamic banks use the sale and purchase system. The results show the different conditions with conventional banks that use the concept of interest. The impact of the financial crisis is the rise in interest rates, which affect the liquidity of conventional banks. While in Islamic banks are not affected directly by the increase in interest rate (BI rate) and it will not change during the time of the contract that has been agreed by both parties (the bank and the customer) (Sudarsono, 2009).

Indonesia as the largest Muslim country in the world should be the pioneer of Islamic financial center in the world. It is based on the potential of Indonesia to become a global player supporter. to Alamsyah (2012), the potential includes: (i). The Large Muslim population becomes potential customers of the Islamic financial industry, (ii). Promising economic outlook, reflected in the relatively high economic growth (which are supported by solid economic fundamentals), (iii). The Increase in Indonesia's sovereign credit rating to investment grade which will increase the



investment in the domestic financial sector, including Islamic finance industry and (iv). The abundant natural resources that can be used as underlying Islamic financial industry transactions.

The presence of community can't be avoided and detained. A community is born organically because equation experiences, interests and hobbies of its members are deliberately designed and sponsored by a particular manufacturer (Prambudi, 2008). Supposedly there is a similarity in communities such as Indonesia as the country with the largest Muslim can be used to make Indonesia has the largest Islamic bank in the world and even become an international financial center.

Currently, the development of Indonesian Islamic finance industry is still left behind compare to other Muslim countries. For example, Malaysia's market share reached 23%, while Indonesia only reached 4.8%. Although this may seem ironic considering that Indonesia is the country with the largest Muslim population in the world, indeed the potential in the world's largest population of Muslims makes Indonesia being the leader/player of the global Islamic financial development in the world. Therefore, Islamic banking also requires real alignments from government innovation, ie converts government state-owned banks that have human resources to further acquire.. This Merger should be guided by the spirit and confidence that will bring '*maslahat*' for economic development and equitable distribution of welfare.

Nevertheless, regarding to Ibn Khaldun concept that all stakeholders should be complemented each other and cannot separate from each other, **IE** Sharia (S), Community (N), government (G), welfare (W), construction (g) and justice (j) so that the function can be written as follows:  $G = f(S, N, W, g \text{ and } j)$ . (Chapra, 2001):

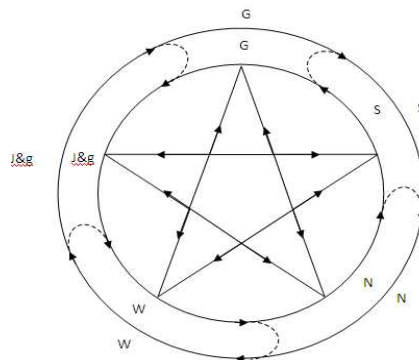


Figure 5 Ibn Khaldun Concept  
Source: Chapra, 2011

Based on Figure 5, G is Ibn Khaldun as the dependent variable because the government or leader must ensure the welfare (W) for the community (N) to provide an environment that is

conducive to development and to create fairness (g) and (j) through the implementation of *maqhasid sharia* (S) so as to create beneficiaries to the community. To face the challenges, Indonesian Islamic banking requires not only government supports (government driven) but also driven society/market driven), which has been formed but not yet achieved optimal performance. The Ibn Khaldun concept that argues the optimization of welfare is the collaboration among all stakeholders (government, community and all player elements) to provide positive contribution.

Another phenomenon that also inherent with Ibn Khaldun is Community concept. Community becomes a necessity, unavoidable and detained. No community is born organically because of the similarity of experience, interests and hobbies of its members, and they are deliberately designed and sponsored by a particular manufacturer (Prambudi, 2008). Utilization of the community is a reality that is required for the actual existence of the community emerged, when a product is consumed in bulk or many customers. The simulation of conversion and merge based on law of community theory. According Nurtantiono (2011) there are three communities theory:

1. Sarnoff's Law, this law stated that the value of a broadcast is proportional to the number of his audiences so that if the number of audiences is (N), then the value that can be generated based on this law is  $(N) = (N)$ .
2. Metcalfe's Law, this law stated that the value of the community will be proportional to the square of the number of members of the community so that if the number of his audience is (N), then the value that can be produced is  $(N)^2$ .
3. Reed's Law, this law stated that the utilization of networks among communities, especially social networks, can double the value. So, if the number of his audience is (N), then the value that can be generated is  $2(N)$ .

### **3. Analysis**

#### *3.1 Analysis of Acquisition and Conversion Pattern*

The establishment of Islamic banks can be done through the mechanism of acquisition and conversion (Anshori, 2010). Acquisition or that the Act No. 40 of 2007 on Limited Liability Company is known by the term of 'take over' which is a legal act performed by a legal entity or individual to take over the shares of the Company which resulted in the shift of control of the Company. While the conversion here means changing the operational activities from the previous conventional bank to *sharia*. The Implementation can be done through three approaches::

1. Conventional banks already have *Sharia* (UUS) to acquire a relatively small bank then converts it into *Sharia* and merge its UUS with the new converted bank;
2. Conventional banks do not yet have UUS, it can acquire a relatively small bank and convert it into a *sharia*;
3. Conventional banks to separate (spin-off) with UUS, and use Islamic Banks (BUS) separately.

In practice, the three things mentioned above have been done, but its impact on the growth of Islamic banking assets have not shown a significant improvement. The current condition of Islamic banking is difficult to achieve the targeted market share of 5%. Based on that requirement, the intervention of the government to increase its market share by establishing a state-owned Islamic bank can give a big impact to the market share.

### *3.2 The Analysis of Islamic Banking Conditions When Conventional Bank Converts to Islamic Bank*

At the macro level, the high growth of Islamic banking can provide carrying capacity of the financial system stability and the national economy. To realize Islamic state-owned bank in Indonesia as a financial power in Indonesia, it is necessary to unite the potential strength of those existing Islamic Banks. In the last decade, asset of Islamic banking has increased to 30% and the conventional banks was only 16%, the growth of Islamic bank was almost doubled from the conventional bank, but there isn't a big impact on the market of Islamic bank that is still locked under 5%.

**Table 3 The Asset Growth of Islamic Bank and Conventional Bank**

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	CAGR
Islamic Bank (Billion Rp)	20,880	26,722	36,538	49,555	66,090	97,519	145,467	195,018	242,276	272,343	296,262	30%
Conventional Bank (Billion Rp)	1,448,947	1,667,128	1,949,963	2,261,002	2,534,106	3,008,853	3,652,832	4,262,587	4,954,467	5,615,150	<b>6,132,583</b>	16%

Source: Banking Statistics Indonesia and Indonesian Islamic Banking Statistics, December 2015

In the simulation, Bank Rakyat Indonesia (BRI) will be appropriate to convert to Islamic bank because BRI is the biggest retail bank in Indonesia. BRI is suitable to the criteria and it also inherents with the Ibn Khaldun theory and Community theory which determined by most beneficiaries or *maslahah*, and it gives a big impact to the community especially for low income people who stay in rural area. Furthermore, BRI will join with BRI Syariah to become an Islamic Bank, and the next step, it will acquire all the Islamic bank which is owned by state

owned conventional bank (Bank Syariah Mandiri, BNI Syariah and BTN Syariah). The mechanism of “The best alternative to convert and acquire the Islamic bank to become State Owned Islamic Bank”. Is described in the figure 6.

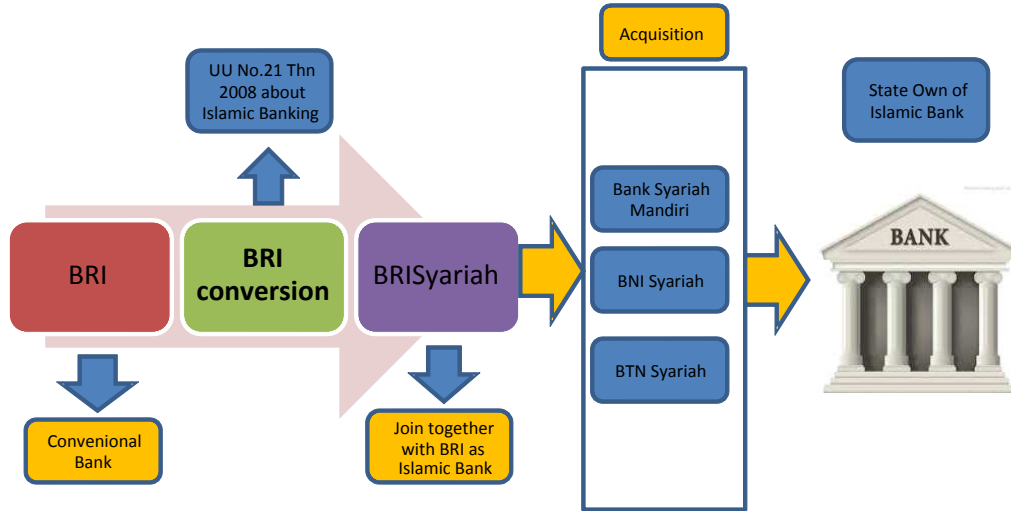


Figure 6 The Best Alternative of Conversion and Acquisition of Islamic Bank

Table 4 Simulation of BRI Conversion Become Islamic Bank

	2015
Islamic Bank Market Share	296,262
Bank Rakyat Indonesia	845,998
Total in billion Rupiah	1,142,260
Market Share Total	5,286,585
Islamic Bank Market Share (%)	21.6%

Source: Banking Statistics Indonesia and Indonesian Islamic Banking Statistics, December 2015

Based on figure 6, the outcome is shown in table 4 as the increasing of Islamic bank market share is 21.6%. This mechanism can raise up the Islamic Banking market share very significantly. According to syafii (2016), the conversion from conventional bank to the Islamic bank is a better option in term of increasing the market share. Furthermore, the important factor to take this action is the strong motivation and policy from government to legitimate the decision with underline *maslahah* principle. Nevertheless, the point of view of *maslahah* is also linked to the community theory. if simulating the community theory based on the BRI employee can understand and have knowledge of Islamic products and influence their relatives and friends, the people who will use the Islamic products can increasing. It can be shown in the following table:

Table 5 Simulation of Community Theory

Community Theories	Number of Employee of BRI ( $\pm$ in 2015)	Community Value added (Maslahah)
Sarnoff's Law	130,000	130,000
Metclafe's Law	130,000	16,900,000,000
Reed's Law	130,000	260,000

Source: detik finance.com 02/12/2015

According to table 5, the *maslahah* of Ummah/community can be possibly achieved by the increasing number of the people who can understand about the Islamic Bank products and services which can increase the number of people who use the Islamic bank products and services, from 130.000 people can increase maximum to 16.900.000.000 people all over the world. Nevertheless, the scope of the people in the rural area also can access the Islamic bank services by the branch of BRI who has the biggest network in the world, regarding the company website, BRI has 10.200 branches.

Implementation of Indonesia as the international hub and Islamic financial center in term of achieving the *maslahah* of Ummah needs a collaboration from all stakeholders and it is not easy. Therefore, the intervention of government policy can be as a locomotive to engage all stakeholders to it real. Furthermore, the challenges must solve, if all stakeholders have consciousness related to this action which is very important for *maslahah* of the Ummah.in *maqashid al-Shari'ah* (objectives of sharia), the point is that everything is done based on the principle of ease for the benefit of human life. Allah has said, which is stated as follows (Surat-al-Baqarah 185) :

شَهْرُ رَمَضَانَ الَّذِي أُنزِلَ فِيهِ الْقُرْآنُ هُدًى لِّلنَّاسِ وَبَيِّنَاتٍ مِّنَ الْهُدَىٰ وَالْفُرْقَانِ ۚ فَمَنْ شَهِدَ مِنْكُمُ الشَّهْرَ فَلْيَصُمْهُ ۖ وَمَنْ كَانَ مَرِيضًا أَوْ عَلَىٰ سَفَرٍ فَعِدَّةٌ مِّنْ أَيَّامٍ أُخَرَ ۗ يُرِيدُ اللَّهُ بِكُمُ الْيُسْرَ وَلَا يُرِيدُ بِكُمُ الْعُسْرَ وَلِتُكْمِلُوا الْعِدَّةَ وَلِتُكَبِّرُوا اللَّهَ عَلَىٰ مَا هَدَاكُمْ وَلَعَلَّكُمْ تَشْكُرُونَ

Meaning: The month of Ramadhan [is that] in which was revealed the Qur'an, a guidance for the people and clear proofs of guidance and criterion. So whoever sights [the new moon of] the month, let him fast it; and whoever is ill or on a journey - then an equal number of other days. Allah intends for you ease and does not intend for you hardship and [wants] for you to complete the period and to glorify Allah for that [to] which He has guided you; and perhaps you will be grateful.

Currently, the Islamic Banking condition in Indonesia needs a breakthrough to carry out from the decreasing of market share because:

1. Islamic bank in Indonesia is as a local player and still in a small scale. It means that

Islamic bank in Indonesia doesn't have an international competition advantage which includes: lack of technology, lack of employee who has sufficient competency in Islamic bank, lack of capital and limited human resources;

2. The existence of Islamic Bank supported by the need and demand of the community as the biggest Moslem population in the world (bottom up initiatives-society driven), but the government doesn't have initiative to boost Islamic Bank among the competition with conventional bank that already established earlier more than 10 (ten) years;
3. The growth of Islamic bank market share wasn't encouraging, because during the last three years the Islamic bank market share decreased;
4. The scope of Islamic bank services in Indonesia is still limited, even though the rural bank such Baitul Mal Wa Tamwil (BMT) is already available reaching all across of Indonesia, but the scope of their services is still finite to support the small and medium enterprises, so they didn't use BMT as their bank for business transactions.

On another side, there is a challenge regarding the globalization, competition of Economic ASEAN community, but there is also opportunity to realize the state owned Islamic bank by the regulation and the role of the government to intervene in the policy side. The government action is allowed by sharia principle as long as it creates maslahah for the community and it is aligned with the community theories. The establishment of the state owned Islamic Bank in Indonesia, which has a market share above 20%, will give a strong foundation impact in Indonesian economy and can deliver Indonesia as the Islamic bank global player. Related to Indonesia as a global player in Islamic bank in the world, it will give a lot of beneficiaries for local economic activity, Islamic education, Islamic business and the stability of financial condition.

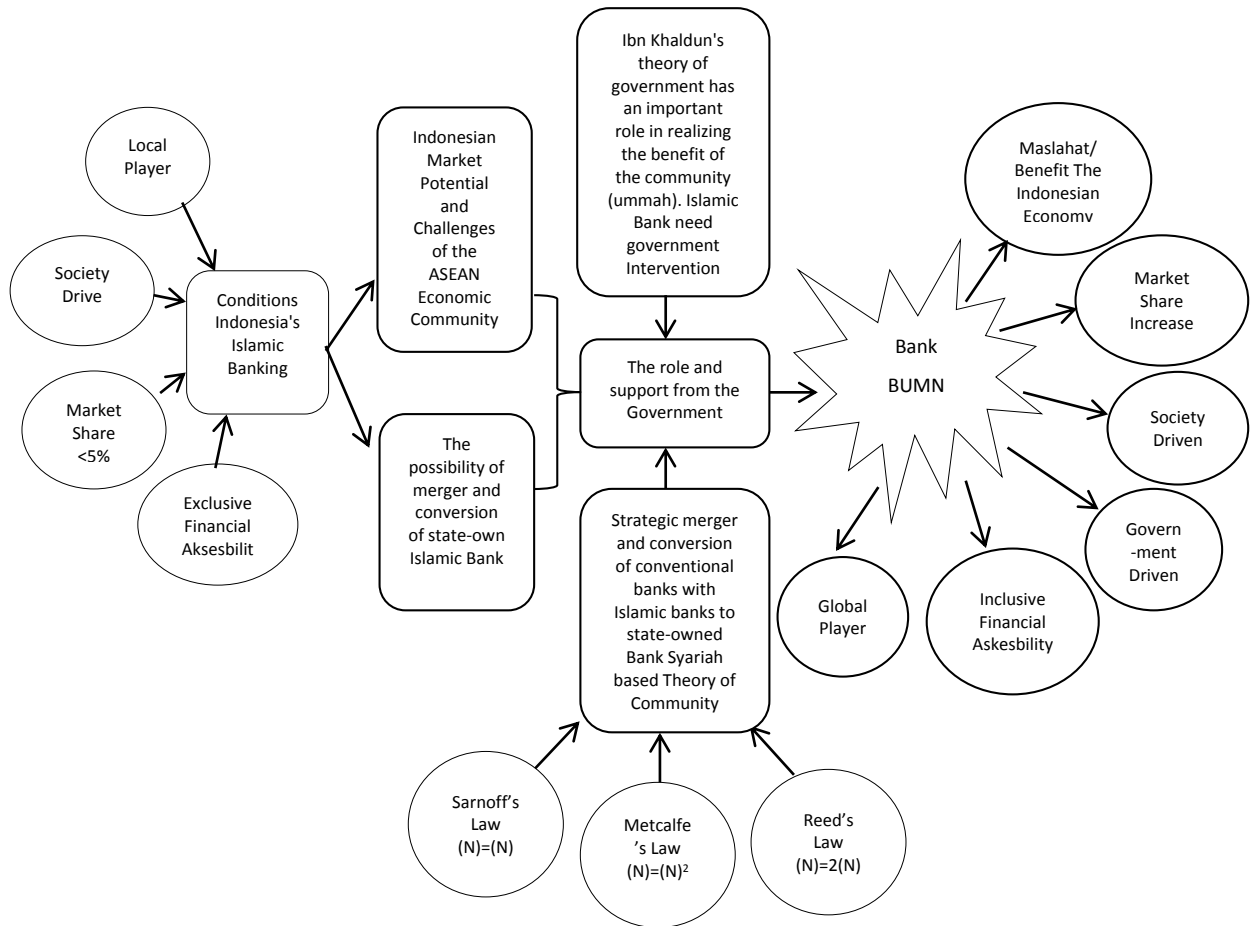


Figure 7 The Strategy to Increase The Market Share and Realizing Indonesia as The Islamic Financial Hub in The World

#### 4. Conclusion

The Islamic Bank market share condition in Indonesia should be released from the trap below 5% by Indonesia government intervention policies. The breakthrough to increase the market share and deliver Indonesia becoming an Islamic financial hub is the option to convert the BRI to a full fledged Islamic bank, and the next action is to acquire the Islamic banks which are subsidiary of conventional state-owned banks (Bank Syariah Mandiri, BNI Syariah and BTN Syariah). This action will increase the Islamic bank market share to 21.6% and will be the biggest bank in the world that will imply the increasing of Islamic economic activity and Islamic education in Indonesia. Furthermore, there are also some alternative solutions which can strengthen the Islamic Bank in Indonesia as follows:

1. Project-based sukuk are recognized as financing;
2. Recognition of Hajj funds as a component of capital of Islamic Bank;

3. Recognition of fund liquidity facility housing construction (FLPP) as a component of capital;
4. All the activities and financial transactions of Hajj and Umrah must be in Islamic banking;
5. Placement of funds from expenditure and budget government (APBN) in Islamic banking;
6. And financing of infrastructure projects, ministries, state-owned enterprises must be included Islamic banking.

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