

INSURING SHARIAH BASED DEPOSIT

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Establishment

1. On January 1998, the Government provided blanket guarantee to promote financial stability in the wake the economic and monetary crisis
2. Realizing drawbacks of providing such guarantee, the Government then decided to phase out the guarantee and establish Indonesia Deposit Insurance Corporation
3. Indonesia Deposit Insurance Corporation Law was enacted on 22nd September 2004 and IDIC started its operational on 22nd September 2005

Mandates

1. IDIC mandates are protecting depositor's fund and actively participate in promoting financial system stability
2. In fulfilling its mandates, IDIC has build collaboration, coordination, and information sharing with other financial safety nets players

Membership

- ☐ IDIC membership is mandatory to all banks operates in Indonesia, including conventional and shariah banks; domestic and branch of foreign banks; as well as commercial and rural banks
- ☐ Number of banks as of September 2009

Banks/Units	Shariah	Conventional	Total
Commercial Banks	5	116	121
Islamic Business Units of CB	24	-	24
Rural Banks	137	1.765	1.902
Total	166	1.881	2.047

Shariah Banking System

- ❑ The first commercial shariah bank was established based on the banking Law Number 7 Year 1992, i.e Bank Muamalat Indonesia
- ❑ The Law regulated that conventional banks were prohibited conducting shariah business. Until 1998, there were no additional players in commercial shariah banking but some shariah rural banks
- ❑ The Law was finally amended by Law Number 10 Year 1998 which allows conventional banks to open shariah business units or windows
- ❑ On July 2008, Syariah Banking Law was enacted

Shariah Banking Figures

In Billion Rupiah (IDR), US\$ 1 = IDR 10,000

No	Description	Dec 07	Dec 08	Sep 09
1.	Assets	39,761	53,256	100,053
2.	Deposits	28,729	37,827	46,539
3.	Financing Facilities	28,835	39,452	46,046

Deposits Covered

- Types of deposit covered includes checking account, saving account, time deposit, certificate of deposit, and other similar types
- For deposit in shariah banks, IDIC protects the checking accounts whether its contract based on Al Wadiah or Al Mudharabah, saving accounts (Al Wadiah or Al Mudharabah), and time deposit accounts (Al Mudharabah)
- Based on fatwa of National Shariah Board concerning deposits with Al Mudharabah contract, bank as mudharib should pay overhead/operasional cost out of their nisba

Shariah Insurable Deposits

Nominal in Billion Rupiah (IDR), US\$ 1 = IDR 10,000

Deposits	December 2008		September 2009	
	Nominal	Accounts	Nominal	Accounts
Checking Accounts	4.238	51.123	5.492	60.401
Saving Accounts	12.912	4.023.755	15.071	4.796.580
Time Deposit Accounts	20.677	128.653	25.976	154.358
Total	37.827	4.203.531	46.539	5.011.339

Deposit Insurance Coverage

- The level of insurance coverage stated in the IDIC Law Year 2004 was IDR 100 million includes principal and interest/shared profit
- As pre-emptive measures to anticipate global financial crisis, the Government has increased deposit insurance coverage to IDR 2 billion (about USD 200,000) since 13 October 2008
- Based on the new coverage of IDR 2 billion, it has covered about 99.92% of deposit accounts in the banking system and protected around 60.67% of total deposits

Maximum Interest Rate

- ❑ IDIC periodically set maximum interest rate for conventional deposits to be eligible for insurance payment
- ❑ There is no such limit for shariah deposits
- ❑ IDIC will reimburse shariah deposits with respect to the coverage limit regardless of their return (shared profit)
- ❑ Return (shared profit) of shariah deposit could not be determined in advance

Funding

- ❑ Initial capital of the IDIC funded by the Government, amounting to IDR 4 trillion
- ❑ Member banks pay bianually premium payment (0.1% of average deposit balance)
- ❑ If IDIC encounter liquidity problem, it can borrow funds from the Government
- ❑ When IDIC capital drops below its initial capital, the Government will restore IDIC capital

Funding

- ❑ IDIC currently manage one fund for both conventional and syariah deposit insurance
- ❑ IDIC targeted fund ratio is 2,5% of total deposits in the banking industry
- ❑ Once the targeted fund reached, surplus or part of surplus will be remitted to Government as Non-Tax Revenue and/or premium rate could be reduced

Funding

- ❑ IDIC can only invest its money to Government Bond or Central Bank Securities/Certificates
- ❑ IDIC has invested its fund to Government Shariah Bond (sukuk) more than the share of deposits in shariah banks or premium they paid to IDIC
- ❑ Currently IDIC invests IDR 500 billion in Government Shariah Bond (Sukuk)

Premium Revenues

In Billion Rupiah

No	Period	Commercial Bank		Rural Bank		Total Premium
		Conventional*	Shariah	Conventional	Shariah	
1	2005	527.898	6.123	10.005	253	544.279
2	2006	2.315.172	27.932	28.701	713	2.372.518
3	2007	2.666.824	39.094	34.686	1.263	2.741.867
4	2008	3.066.559	50.358	42.131	1.834	3.160.881
5	2009	3.665.280	65.645	46.451	2.277	3.779.654
	Total	12.241.733	189.152	161.973	6.340	12.599.198
	Percentage	97,16%	1,50%	1,29%	0,05%	100,00%

* Included premium from shariah business unit

Challenges

- ❑ Undercapitalised and limited capacity of shariah banking industry
- ❑ Development of products that provide competitive alternative to conventional banks
- ❑ Enhancing regulatory and supervisory framework for shariah banking system
- ❑ Improving number and quality of human capital in the shariah banking industry
- ❑ Satisfying potential shariah customers with quality product features and infrastructures

Thank You