

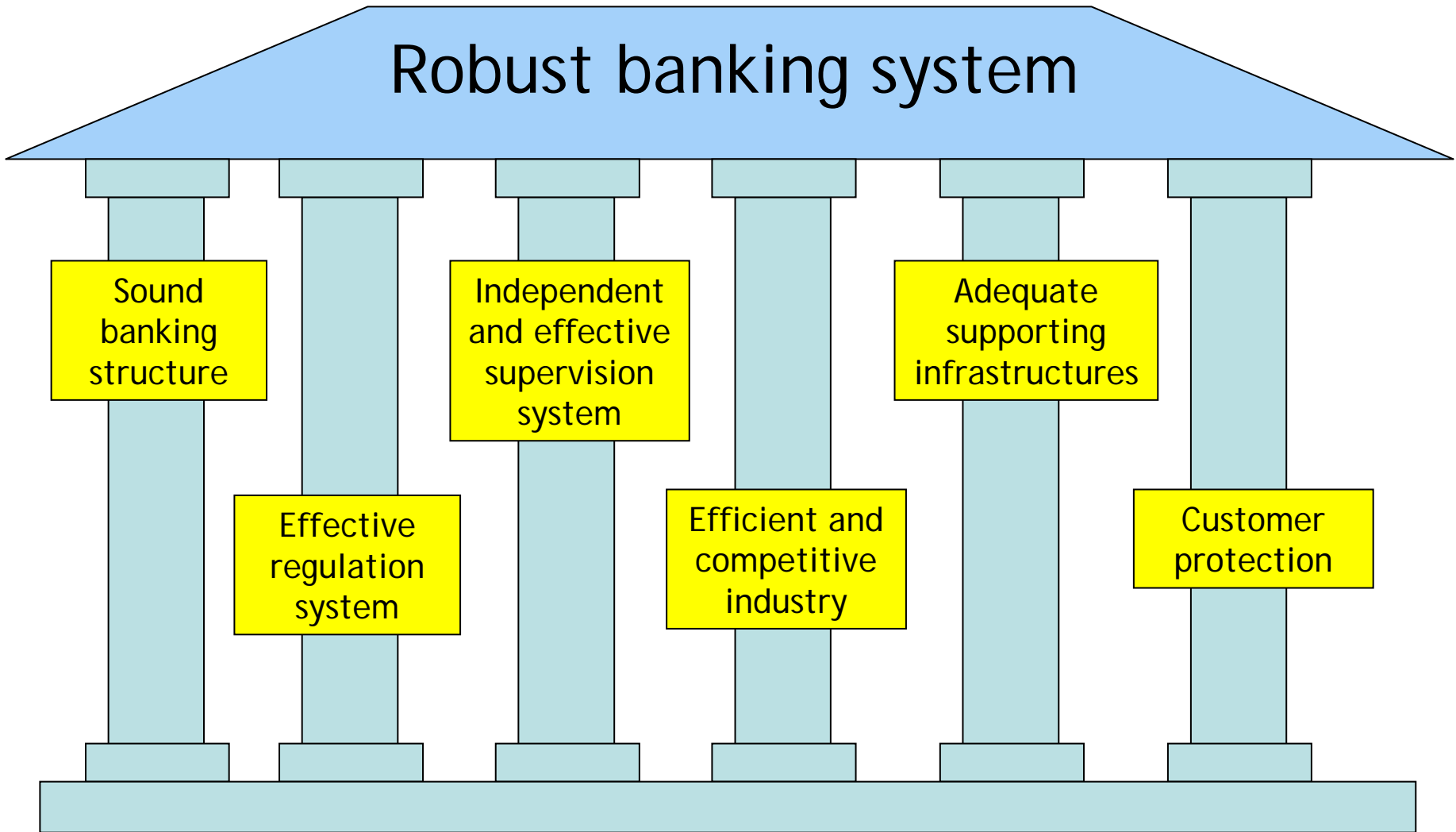
# Building an Effective Legal and Regulatory Framework for Islamic Banking: an Indonesian Case

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# The Needs for Effective Regulatory

- Sound and stable financial system.
- Islamic banking is part of financial system.
- Effective regulatory for Islamic banking system is one of fundamental pillars in financial architecture

# The Needs for Effective Regulatory



Source: Indonesia Banking Architecture, formulated by Bank Indonesia and Mc Kinsey Consulting, January 2004

# Supportive and Effective Legal Framework

Three guiding principals to develop a supportive legal framework:

1. Set out clear, attractive and motivating goals in key area
2. Generate multiple pathways to obtaining goals and sub-goals
3. Foster a strong sense of self-confidence in ability to achieve task

To ensure a supportive framework is also effective: industry players want to be regulated and want to be guided

Source: Mustafa Hussain (2004)

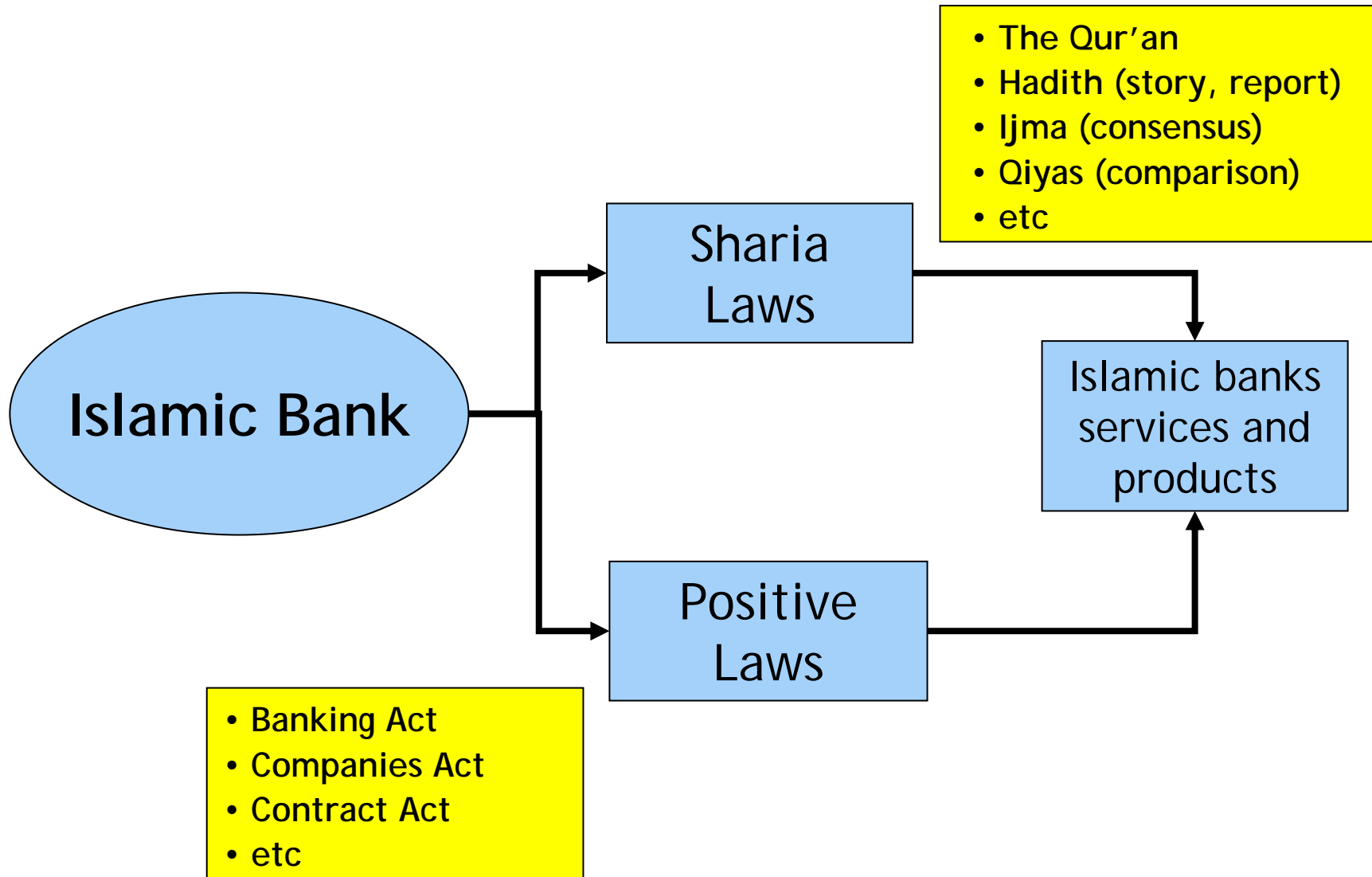
# Why we build a legal and regulatory framework for Islamic Banking

- Islamic banking is a realization of the needs of the public seeking an alternative banking system that is both capable of delivering sound banking services and comply with sharia rules.
- We believe that the system is capable of delivering economic benefits → based on the economic crisis experience (1997)

# Legal Environment

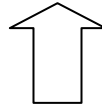
- Ability of legal system to adapt sharia contracting needs in the economy is important to obtain most advantageous financial development.
- Most of Islamic countries today, civil and commercial codes are greatly influenced by Europeans laws, most commonly French, next most commonly English.
- The emergence of global Islamic finance modes need a proper and timely legal framework policy and development to facilitate the rapid growth of those finance modes.
- The absence of legal frameworks to govern practice could mean that legal solutions to any legal dispute would be ad hoc and arbitration solutions.

# Legal Environment



# Islamic Banking Industry as Part of Indonesian Financial System

sound, efficient, and stable  
Indonesian financial system  
that support economic growth



ASKI, Arsitektur Sistem Keuangan Indonesia  
(Indonesian Financial System Architecture)



Link to: the Infrastructure  
of Islamic Banking industry

API, Arsitektur Perbankan Indonesia  
(Indonesian Banking Architecture)

Indonesian Capital  
Market Master Plan

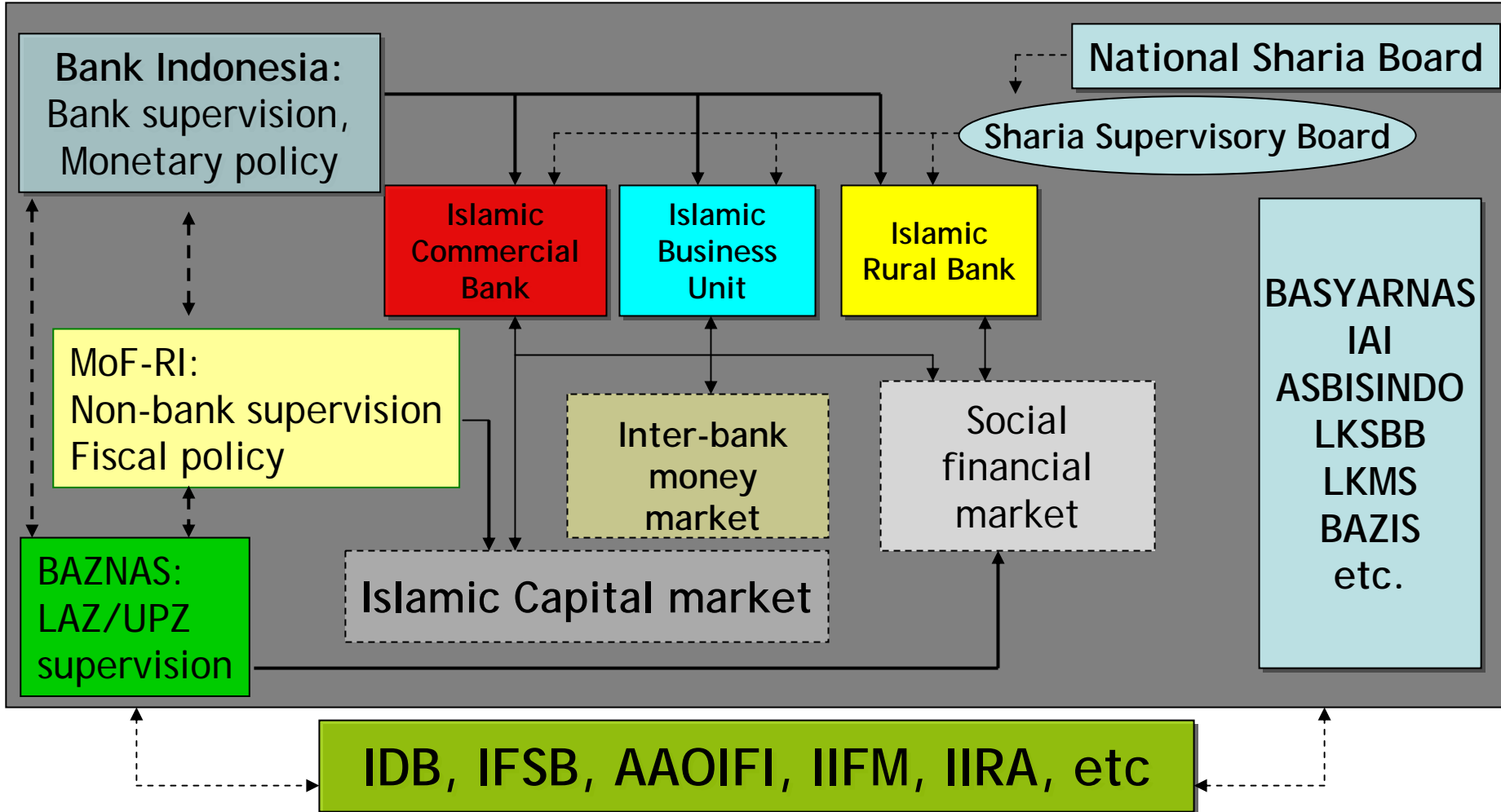
Insurance  
and  
other NBF Sub -sectors

The Blue Print of Islamic  
Banking Development in  
Indonesia

National Payment  
System Blue Print

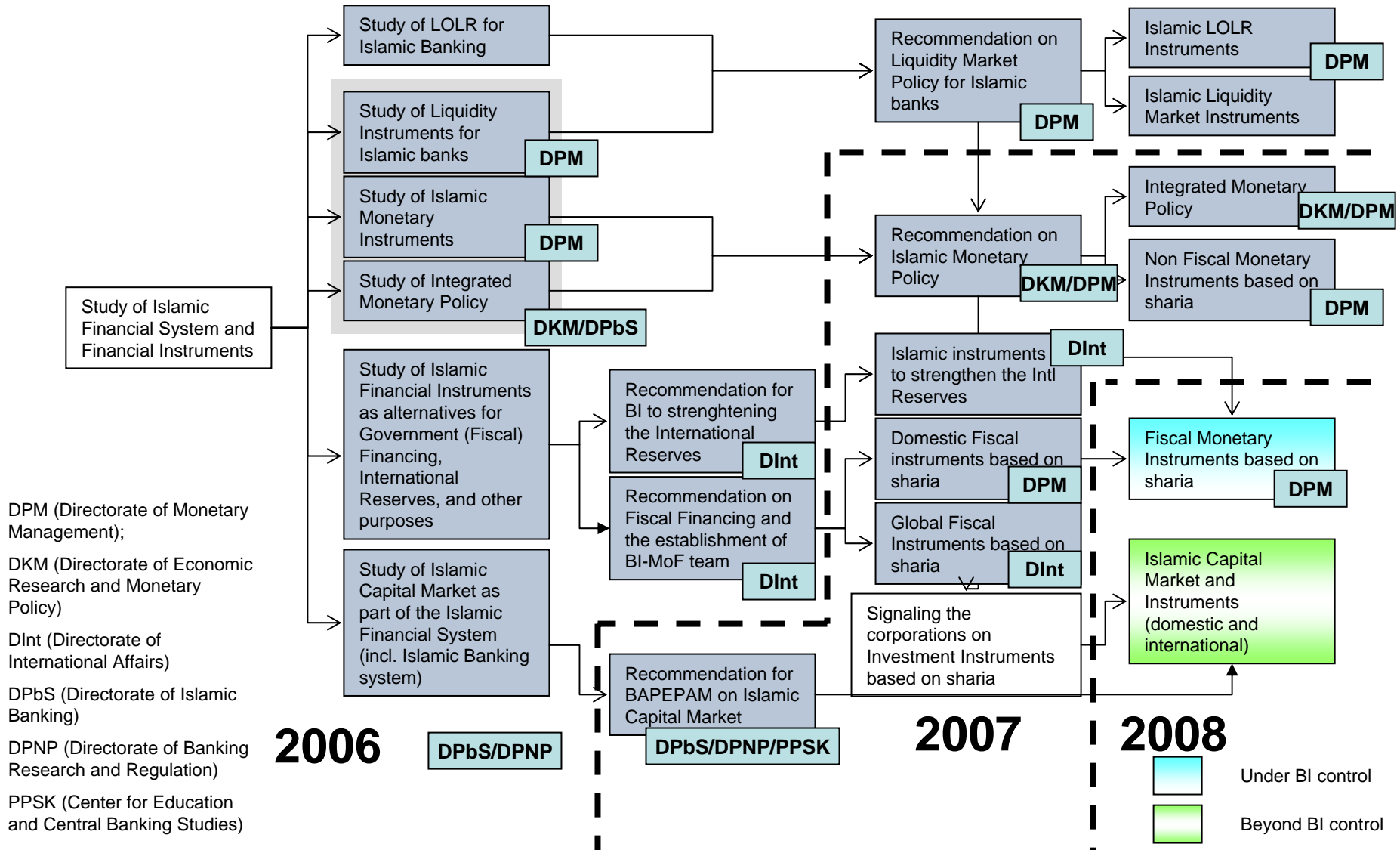
Pension Funds  
Master Plan

# The Infrastructure of Islamic Banking Industry



Note: BASYARNAS: National Agency for Sharia Arbitrage; IAI: Indonesian Accountant Association; ASBISINDO: Association of Indonesian Islamic Banks; LKSBB: Non-bank Islamic Financial Institutions; LKMS: Islamic Micro Financial Institutions; BAZIS: Zakah-Infaq-Shadaqah Administration Board

# Sharia Financial/Monetary Instrument Development

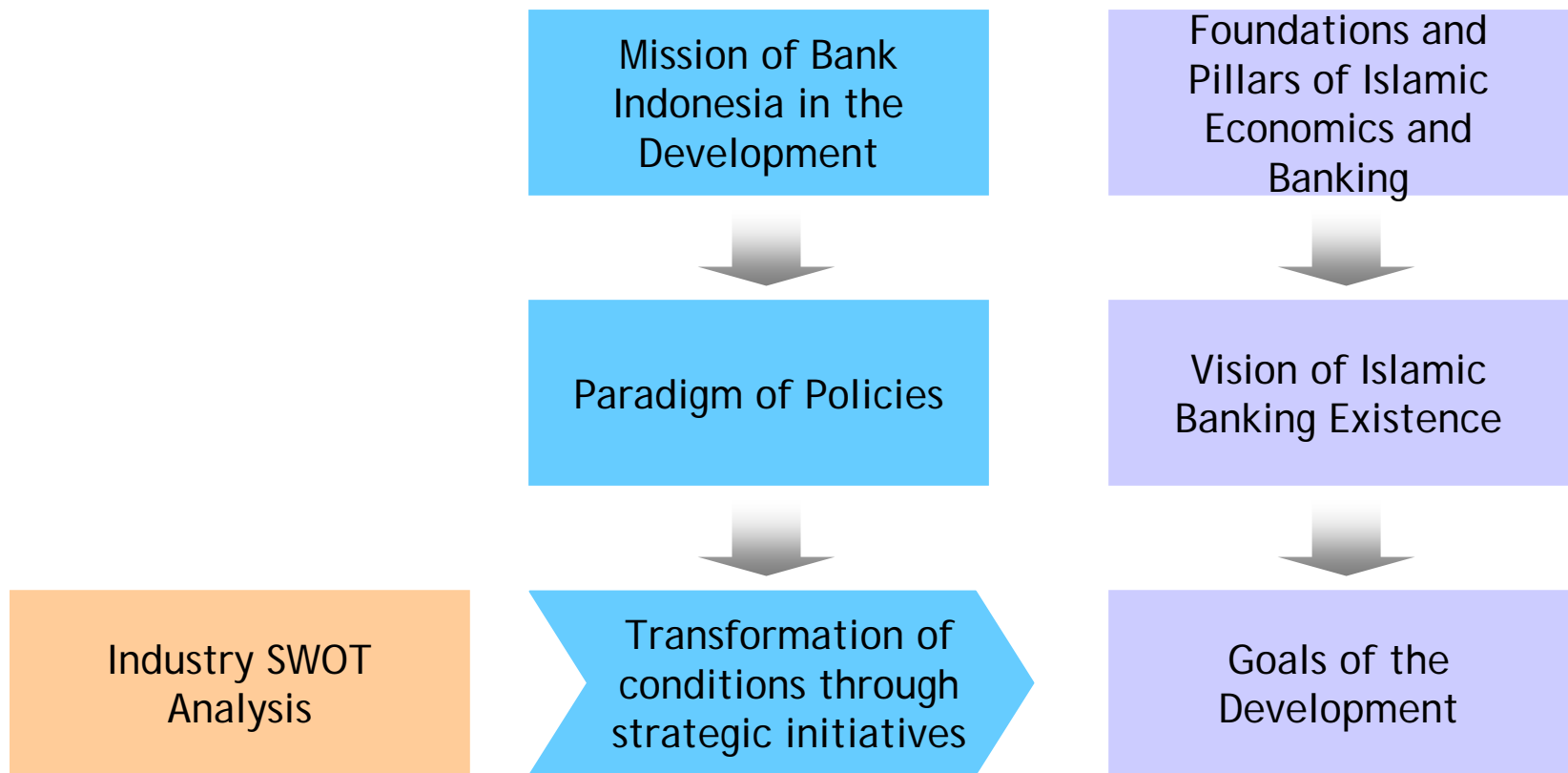


# Milestone of the Islamic Banking Legal & Regulatory Framework in Indonesia

- 1990 → National Summit of Religious Scholars agreement to establish Islamic commercial bank
- 1992 → Introduction of dual banking system  
Act No.7 of 1992: “share base bank”
- 1998 → Introduction of dual system bank  
Act No.10 of 1998: conventional banks are allowed to open sharia branch offices
- 1999 → Introduction of Islamic monetary instruments  
Act No.23 of 1999: BI is authorized to implement Islamic based monetary policy: Sertifikat Wadiah Bank Indonesia (SWBI)
- 2000 → Introduction of Islamic Interbank Money Market  
Pasar Uang Antar-bank berdasarkan prinsip Syariah (PUAS)
- 2002 → Net-branch improvement  
BI Regulation No.4/1/PBI/2002
  - Conversion of conventional bank to Islamic bank
  - Conversion of conventional branch to Islamic branch
  - Conversion of conventional sub-branch/cash office to Islamic branch
  - Opening Islamic sub-branch in conventional branch
  - Opening Islamic unit in conventional branch

# Milestone of the Islamic Banking Legal & Regulatory Framework in Indonesia

- 2002 - 2015 → The Blueprint of Islamic Banking Development in Indonesia



## **Vision:**

“To establish an Islamic banking system that is sound, strong, and consistent (istiqomah) with sharia principles under inline of justice, social welfare (maslahah) and harmony to realize a prosperous society in term of material and spiritual (falah)”

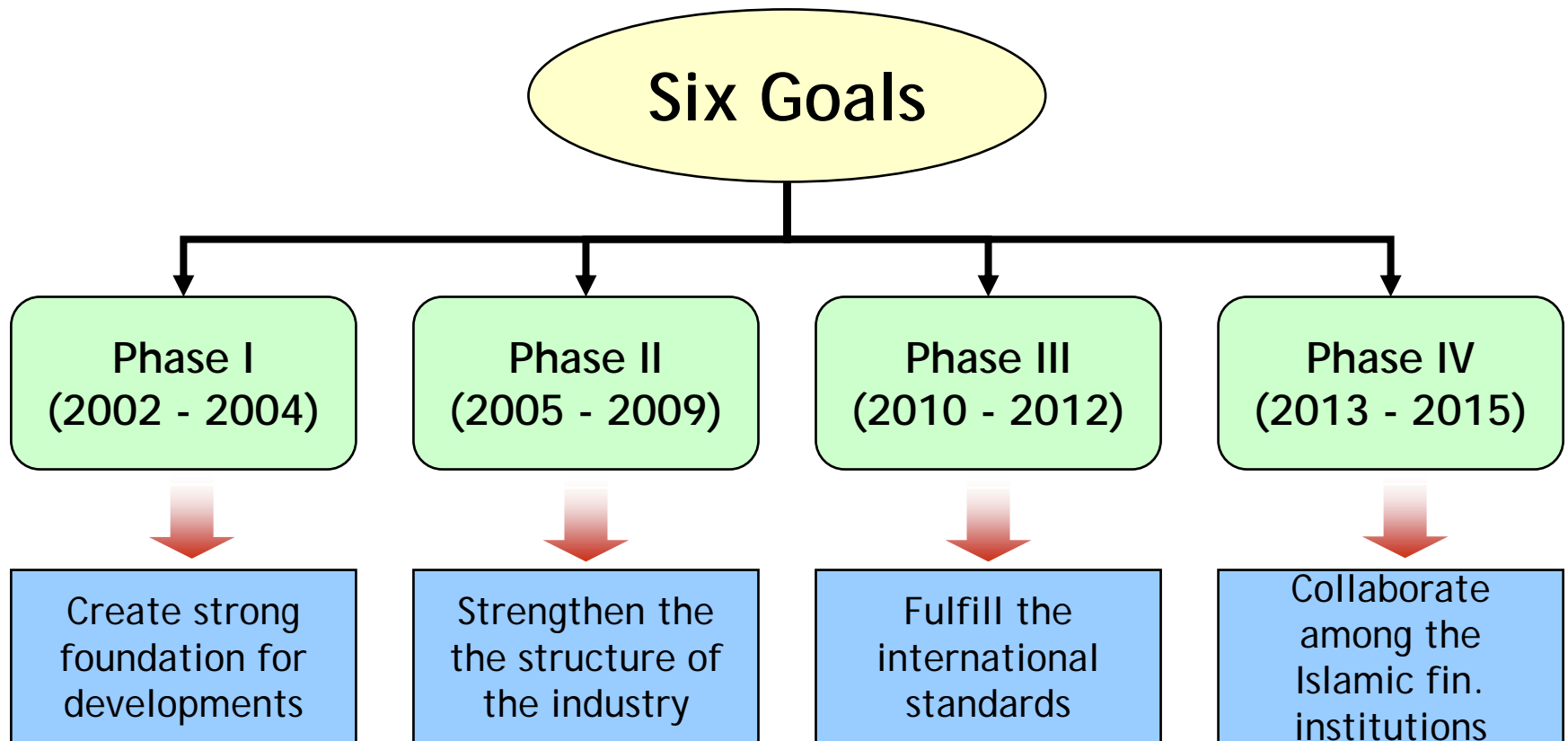
## **Mission:**

“Creating conducive environment for Islamic banking development that is competitive, efficient, prudent, and sharia compliance as well as capable of supporting real economic sectors through share-based financing and real transactions activities to support national economy growth”

# Goals:

1. Full compliance of sharia principles in its Islamic banking operations
2. Implementation of prudential principles in Islamic banking operations
3. Creation of competitive and efficient Islamic banking system
4. Systemic stability and benefits for the society
5. Having competent human resources both in quantity and quality that support Islamic banking growth
6. Maximization of Islamic bank social function through its roles to foster voluntary sector and empowerment of micro economy (*dhua'fa*, micro and small businesses)

# Phases:





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# Thank You

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