



Original Article

Indonesia Islamic Banking Readiness in Facing the ASEAN Economic Community 2015, in terms of Islamic Banking Disclosure and Performance Indices

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ABSTRACT

This research is aimed to analyze the level of openness of Indonesia Islamic Banking which is viewed from Islamic Banking Disclosure Index based on Sharia Compliance Indicator, Corporate Governance Indicator and Social/Environment Indicator, analyze the financial performance of Indonesia Islamic Banking which is viewed from Islamic Banking Performance Index during 2008 – 2013, as well as to analyze and/ or propose policies to the regulator, the Financial Services Authority (OJK) and Bank Indonesia (BI) related to the readiness of the Islamic banking in facing of AEC 2015, particularly in terms of disclosure and performance. This research used the quantitative and qualitative methods. The use of quantitative method in this research looks at the evaluation of Islamic Banking Performance Index, where the researchers process secondary data from Islamic Bank in Indonesia to get financial ratios and in the end it will produce output Islamic Banking Performance Index. The use of qualitative method in this research looks at the evaluation of Islamic Banking Disclosure Index, where the researchers analyze and process the data. This output would produce Islamic Banking Disclosure Index. The result of this research shows Islamic Banking Disclosure Index of Indonesia Islamic Banking (82.71%) higher than ASEAN Islamic Banking (52.40%). It can be concluded that Indonesia Islamic Banking more open to reveal the information / publication related to *Sharia Compliance Indicator*, *Corporate Governance Indicator* and *Social/ Environment Indicator*. Based on the analysis of Islamic Banking Performance Index, it is concluded that Indonesia Islamic Banking better and more stable, which the analysis value is not relatively different than ASEAN Islamic Banking.

Keywords: ASEAN Economic Community; *Islamic Banking Disclosure Index*; *Islamic Banking Performance Index*; Indonesia Islamic Banking, ASEAN Islamic Banking

Introduction

ASEAN Economic Community (AEC) is the embodiment of agreement in economic integrated model at ASEAN region, which was proclaimed at the 9th ASEAN Summit in Bali, Indonesia in 2003 (Ministry of Trade, 2007:6). If Indonesia is not able to keep the existence in AEC, it will be the loss of opportunities, especially in the economic area (Ekawati, 2014: 1). With the enactment of AEC industry is no exception then all of the financial industry, particularly Islamic banking to compete in the AEC market.

Most of people is concerned about the presence of AEC as threat because the potential domestic market will be taken by the other countries. This fear is not groundless if we will be able to demonstrate the highest competitiveness. Is Indonesia Islamic Banking ready to facing ACE 2015? This thing is a major focus in this research.

Research Question

- How is the openness level of Indonesia Islamic Banking that viewed in Islamic Banking Disclosure Index period 2008-2013?
- How is the openness level of Indonesia Islamic Banking that viewed in Islamic Banking Performance Index period 2008-2013?
- How is the propose of policies to regulaor, OJK and/ or BI and/ or Islamic Bank in Indonesia related to the readiness Indonesia Islamic Banking to facing AEC 2015, particularly in terms of disclosure and performance?

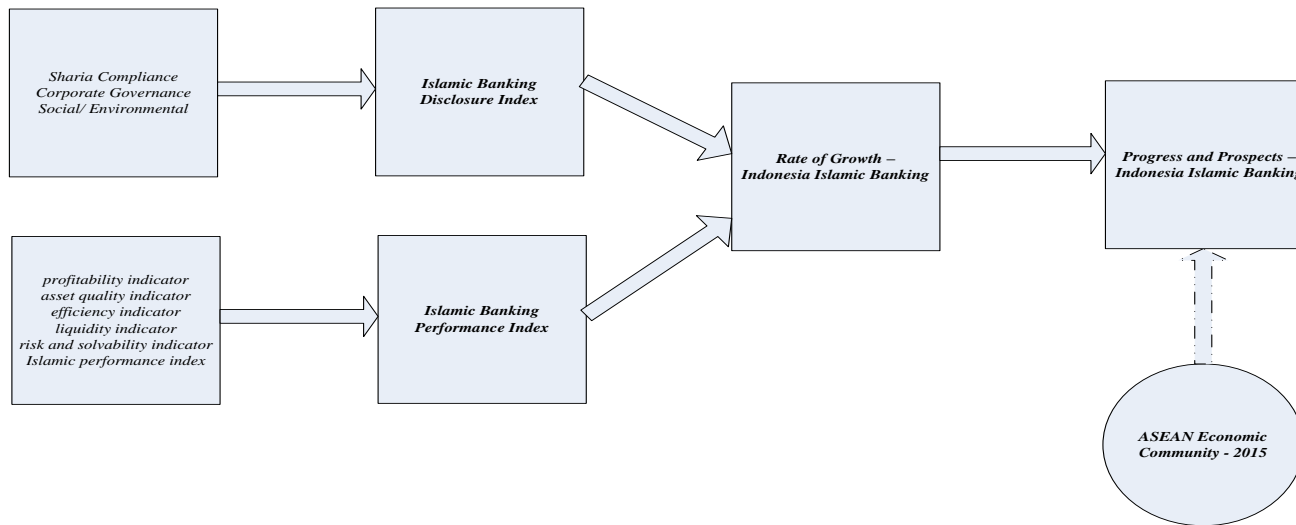
Literature

In line with the world Islamic Banking development, the development of an index to measure/ determine the financial performance of Islamic Banking to be very important part, especially to determine how far the success level of these financial instutions to reach the target that had stated before, but it is also unless important, namely whether the Islamic financial institution complies with Islamic law (sharia compliance).

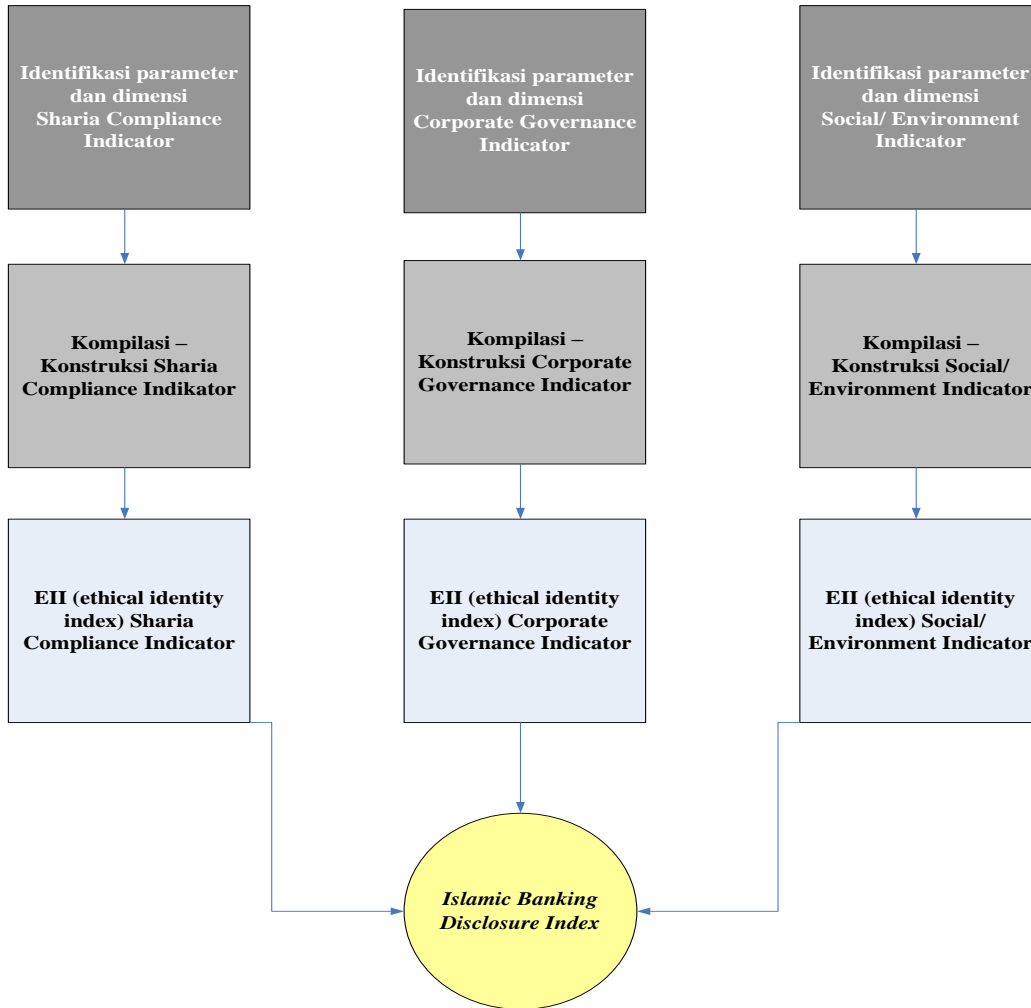
Disclosure Index is an index that used to check/ reveal how well or clear an Islamic Financial Institution reveal information that used to stakeholders. Disclosure Index is divided into 3 (three) main indicator in valuation, namely Sharia Compliance Indicator, Corporate Governance Indicator and Enviroment/ Social Indicator. Performance Index that used in this research is named Islamic Banking Performance Index. Islamic Banking Performance Index is index to evaluate the performance of Islamic Bank of 2 (two) sides namely financial performance and Islamic performance.

To measure and/ or get the value of Islamic Banking Disclosure Index is used the checklist method of disclosure that will be researched, include Sharia Compliance, Corporate Governance, dan Social/ environmental. Meanwhile, to measure and/ or evaluate Islamic Banking Performance Index is used ratio method. Ration that will measure/ evaluate in Islamic Banking Performance Index consist of the common ratio, namely profitability indicator, asset quality indicator, efficiency indicator, liquidity indicator, and risk and solvability indicator as well as financial ratio to look sharia compliance which is called Islamic Performance Index.

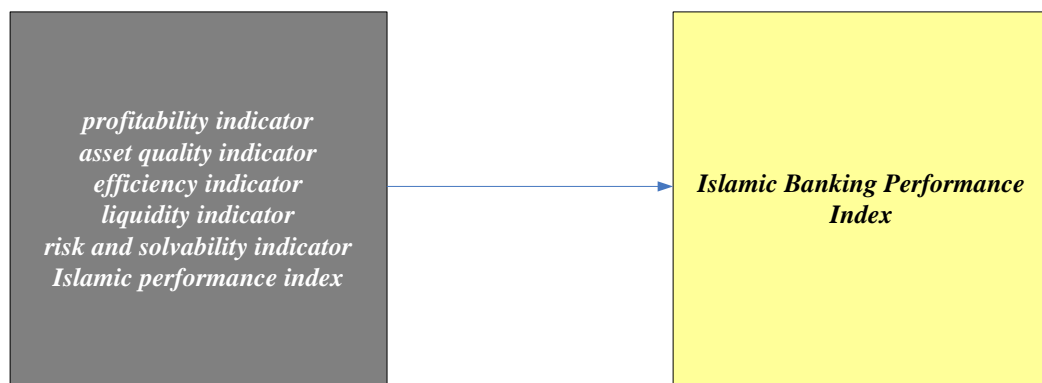
Picture 1 - The framework of Readiness Analysis in Indonesia Islamic Banking in terms of Islamic Banking Disclosure and Performance Indices



Picture 2 - The Framework of *Islamic Banking Disclosure Index* Establishment



Picture 3 – The Framework of *Islamic Banking Performance Index* Establishment



Methodology

1) Research Technique

The research technique in this research is explorative technique. This is because the researchers has conducted development to the previous research. The development is conducted include Disclosure Index and Performance Index.

2) Research Instrument

Islamic Banking Disclosure Index is the mean (average value) EII of each indicator that becomes part of the establishment Islamic Banking Disclosure Index, namely sharia compliance indicator, corporate governance indicator and social/ environment indicator. By averaging the three indicators is forming the index and it will show how the projection is generally related to the disclosure in Islamic Bank that become the object of this research.

$$\text{Islamic Banking Disclosure Index} = \frac{\sum [EII_j \text{SCI} + EII_j \text{CGI} + EII_j \text{SEI}]}{n}$$

Where are :

IBDI = *Islamic Banking Disclosure Index*

EII_j = index of corporate identity that expressed by Islamic Bank in annual reports.

$EII_j \text{SCI}$ = EII_j *Sharia Compliance Indicator*

$EII_j \text{CGI}$ = EII_j *Corporate Governance Indicator*

$EII_j \text{SEI}$ = EII_j *Social Environment Indicator*

n = number of IBDI indicators

In this research, performance evaluation of Islamic Bank is evaluated in 2 (two) sides namely financial performance and Islamic performance. Compilation of these indicators is called Islamic Banking Performance Index.

3) Research Object

1. Islamic Bank which is stand-alone corporation in all ASEAN countries.
2. Islamic Bank has published Annual Financial Statement (annual report) and Good Corporate Governance Report until 2013.
3. Islamic Bank as mentioned in point 1 and 2 has total assets in 2013 \geq average total asset of 3 (three) Islamic Bank in Indonesia in term of their assets.

4) Data Collection Method

The data that used in this research is secondary data from Annual Financial Statement (annual reports), Good Corporate Governance Report from each of ASEAN Islamic Bank during research period. The research data was processed and evaluated to provide Islamic Banking Disclosure Index and Islamic Banking Performance Index.

Research Result and Analysis

1) Islamic Banking Analysis

Table 1 – Indonesia Islamic Banking Outreach

Bank Categories	2011	2012	2013
Islamic Bank	11	11	11
Islamic Business Unit	24	24	23
• Total Office	1737	2262	2526
Islamic Rural Bank	155	158	160
• Total Office	364	401	399
Total account (third party of funds)	8,2	10,8	12,3
Total employee	27.660	31.578	42.062

Source : Statistik Bank Indonesia, 2013 : 8

Table 2 – Indonesia Islamic Banking Performance

Financial Position	Islamic Bank		Islamic Business Unit	
	2012	2013	2012	2013
Source of Funds				
Third Party of Funds	117.8	137.0	29.7	37.0
Liabilities to the Bank	10.0	10.5	1.6	2.1
Placement of Funds				
Deferred Payment	112.4	134.6	35.1	44.7
Placement to BI	19.2	18.0	7.5	8.1
Placement to other Banks	3.1	2.5	2.9	3.3
Marketable Securities	7.0	8.2	0.8	1.4
Current Year Profit	1.8	1.6	0.8	1.5
Total Asset	147.6	171.3	47.4	58.2

Source : Statistik Bank Indonesia, 2013 : 9

The development of Islamic Banking which is relatively fast that not followed with their market share, where actual value in Islamic Banking market share in 2013 is amounted 4.58% (Buchori, 2013:5). The value of Islamic Banking market share is the lowest than conventional banking market share which is amounted 95.42%. Estimated at 5.25% to 6.25% (Siregar, 2013:12), still in the lowest composition than conventional banking market share.

Indonesia is the country with the largest population (40.6%) and the largest land area (41.9%). The country with the smallest population is Brunei Darussalam and the smallest land area is Singapore.

The formation of AEC is also bring major implications for Indonesia Islamic Banking. But, unlike conventional banking, where with AEC bring the huge market to the conventional banking, for Islamic Banking which is bringing a little market share. Among the ASEAN countries,

only Malaysia, Singapore, and Brunei Darussalam which has potential market in sharia products and services. But because the population of these countries are lower, the market is very limited. Thus, opportunities for Indonesia Islamic Banking with the implementation of AEC is not too much (Directorate of Islamic Banking BI, 2012:76).

2) Islamic Banking Disclosure Index

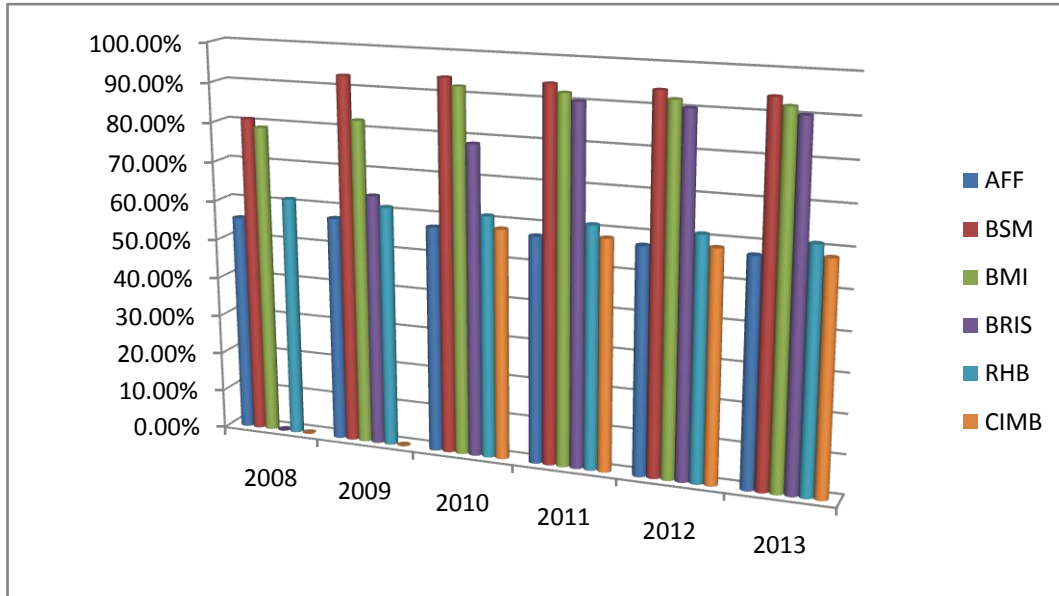
Table 3 - Rank of *Islamic Banking Disclosure Index*

Country	Islamic Bank	Code	Islamic Banking Disclosure Index							Rank
			2008	2009	2010	2011	2012	2013	Mean	
Indonesia	PT. Bank Syariah Mandiri	BSM	84,48%	93,14%	94,12%	94,12%	94,12%	94,12%	92,35%	1
Indonesia	PT. Bank Muamalat Indonesia	BMI	78,92%	82,68%	92,16%	92,16%	92,16%	92,16%	88,37%	2
Indonesia	PT. Bank BRISyariah	BRIS		63,89%	78,59%	90,36%	90,36%	90,36%	82,71%	3
Malaysia	RHB Islamic Bank Berhad	RHB	61,27%	61,27%	61,27%	61,27%	61,27%	61,27%	61,27%	4
Malaysia	CIMB Islamic Bank Berhad	CIMB		58,33%	58,33%	58,33%	58,33%	58,33%	59,02%	5
Malaysia	Affin Islamic Bank Berhad	AFF	55,39%	57,35%	57,35%	57,35%	57,35%	57,35%	57,02%	6

1. Based on the above table, it is known Indonesia Islamic Banking rank relatively higher than ASEAN Islamic Banking. Where Indonesia Islamic Banking was ranked the best position than the others Islamic Bank in ASEAN.
2. The ranking of Islamic Banking Disclosure Index which projected in Table 3 is indicating during period 2008-2013, Indonesia Islamic Banking is more open and more complete in reveal of disclosure that are required in the formation of Islamic Banking Disclosure Index which consists of Sharia Compliance, Corporate Governance and social / Environment Indicator.
3. The fulfillment of disclosure is relatively affecting to the formation of public trust. The implications of public trust is expected in line with the increasing of sharia market share.
4. Based on the research that has been done before, it is known that the right and accordance disclosure to the principles of Islamic law will affect the market share and/ or the level of public trust to Islamic Bank. As the result of research that was conducted by Dian Ariani (2007:58) in Thesis Research which titled "Public Perception to Islamic Bank in Medan", which is stated services and profesionalism of Islamic Bank (sharia compliance) only

brought influence 23.3% to respondents perception to Islamic Bank in Medan. This is certainly indicated the level of public trust in Islamic Bank that have important function.

Picture 4 – Comparation between Islamic Banking Disclosure Index in Indonesia and ASEAN



Based on the picture above, it could be seen clearly that Indonesia Islamic Banking has higher Islamic Banking Disclosure Index than ASEAN Islamic Banking. The average value of Islamic Banking Disclosure Index of Indonesia Islamic Banking during 2008-2013 is amounted 82.71%, which is higher than Islamic Banking Disclosure Index of ASEAN Islamic Banking that amounted 52.40%.

3) Islamic Banking Performance Index

Islamic Banking Performance Index is formed by several indicators that have different on their valuation, so the valuation of Islamic Banking Performance Index is not accumulated.

1. Profitability Indicator

Performance of Indonesia Islamic Banking is relatively good enough in profitability indicator. This is showed at ROA and ROE which are relatively high, where BSM is ranked top 3 for both indicators. However, Price Earning Ratio (PER) of Indonesia Islamic Banking is relatively lower than ASEAN Islamic Banking. This is triggered higher in Operational Expenses to Operational Incomes at Indonesia Islamic Banking (>70%).

2. Asset quality indicator

Based on this indicator, asset quality in Indonesia Islamic Banking is relatively not good enough compared than the other ASEAN Islamic Banking. There are not Indonesia Islamic Banking that have in the top 3 best asset quality. This is also because relatively small of total asset in Islamic Bank in Indonesia.

3. Efficiency indicator

The level of efficiency and performance of Islamic Bank in Indonesia is relatively good. Where BSM is in top 3 (three). However, the implementation activities in Islamic Bank in Indonesia is not good enough than the others Bank in ASEAN. This is most likely triggered that still relatively higher in operational expanses in Indonesia than ASEAN.

4. Liquidity Indicator

From the liquidity indicator, Indonesia Islamic Banking is relatively good, where the Indonesia Islamic Banking is in top 4 (four) biggest in liquidity valuation. Where the Islamic Bank has relatively good ability to cover their short-term liabilities, especially if there are liquidity problems that might occur.

5. Risk and solvability indicator

In the assessment of this indicator, there is no Islamic banks in Indonesia who are in position three (3) large. That is, the ability of Islamic banks in Indonesia is still relatively low compared to other ASEAN banks to repay the entire debt that is using all its assets if insolvent. It is considered appropriate that Islamic banking assets in other ASEAN larger and more developed than the Islamic banking in Indonesia in general.

6. Islamic performance indicator

Based on the valuation of Islamic Performance indicator, Islamic Bank in Indonesia is relatively good. Where 3 (three) Islamic Banks in Indonesia that become research object are the Bank who had given proportional intensity to sharia compliance. This is most likely due to fairly strict Sharia compliance which regulated in Indonesia compared than ASEAN countries. And for sure, this is become one positive point to running Indonesia Islamic Banking.

4) Policies Analysis in Facing AEC 2015

One step has been carried out by Malaysia in facing the competition in banking sector at AEC was merged 3 (three) banks, namely CIMB Group, RHB Capital and Malaysia Building Society. This merger process has added 1 (one) the largest bank in Southeast Asia with potential total asset amounted Rp. 2,300 trillion (US\$ 24 billion). Currently, the Bank in Indonesia that has the biggest total asset is PT. Bank Central Asia Tbk. (BCA), with the range value of their total asset amounted US\$ 24 billion (Gunadi, 2014). If compared with the biggest Indonesia Islamic Bank in total asset which is Bank Syariah Mandiri with total asset US\$ 5.3 billion, assets of Islamic Bank in Indonesia is too small than conventional bank in Indonesia.

Answering this challenge, Deputy Governor of Bank Indonesia, Halim Alamsyah said the establishment of Islamic state bank stand-alone as a strategic step, in line with the liberalization of banking sector in the implementation of AEC 2015. The most realistic way is to merge 4 (four) Islamic Banks state-owned namely Bank Mandiri Syariah (BSM), Bank Rakyat Indonesia Syariah (BRIS), Bank Negara Indonesia Syariah (BNI Syariah) and Sharia Business Unit Bank Tabungan Negara (BTN-Syariah) (Fatkhul, 2013).

Indupurnahayu (2007) said in research paper entitled "Banking Merger Implementation in Indonesia, Could be done the Stability and Efficiency?", some of benefits of bank mergers, among others:

1. To make the strengthen of capital structure. If two or more inter-bank merger, it will increase their strengthen of capital structure which reflected in the capital adequacy ratio (CAR) improvement.
2. With the strong capital structure, the competitiveness of post-merger bank will be increased so it will make better positioning of this bank.
3. The post-merger bank will be able to expand their market segmentation that followed by expansion of the type and variety of products and banking services.
4. Merger of national banks indirectly could avoid the capital increase, thus preclude the opportunities to foreign investors and control of national banks by foreign capital.
5. From the government side, it would receive more income from taxes and dividends as well as cash, when the post-merger bank divested.

Based on the above presentation, the idea to implement the merger of Islamic Bank that state-owned is relevant to conduct immediately, also based on financial condition of these banks which is valuate really good. This idea accordance with the research of Bobby Yulandika Putra (2013:16) which entitled "By looking at the financial ratios of the merge conventional bank, would this activity succeed?", it is compared financial condition of Bank Mandiri (merged in 1999), Bank Danamon (merged in 2000), and Bank Permata (merged in 2002), by taking 1 year time before and after the merger process and financial crisis in 2008, the result of research are among others :

1. Based on the percentage of financial ratios (liquidity ratio, solvability ratio, and profitability ratio) of Bank is known relatively smaller than before the merger.
2. Based on the percentage of financial ratios ((liquidity ratio, solvability ratio, and profitability ratio) of Bank is known survive well from the financial crisis 2008.

The merger process was conducted to Bank Mandiri (in 1999), Bank Danamon (in 2000), and Bank Permata (in 2002) which gave the significant changes to improvement of banks financial performances.

Conclusion and Recommendation

1) Conclusion

1. Indonesia Islamic Banking has Islamic Banking Disclosure Index higher than Islamic Disclosure Index in ASEAN Islamic Banking.
2. The average of Islamic Banking Disclosure Index in 2008-2013 is amounted 82.71% higher than Islamic Banking Disclosure Index in ASEAN Islamic Banking that is amounted 52.40%.
3. Annual report of each Islamic Bank in Indonesia is relatively more fully in the reveal disclosure that required in the formation of Islamic Banking Disclosure Index.
4. Based on analyze of Islamic Disclosure Index that is concluded Indonesia Islamic Banking more transparant to reveal the information/ publicity related on *Sharia Compliance Indicator, Corporate Governance Indicator* and *Social/ Environment Indicator*.
5. Indonesia Islamic Banking has the average value of Islamic Banking Performance Index relative not too much different to ASEAN Islamic Banking.
6. Based on analyze of Islamic Banking Performance Index that is concluded Indonesia Islamic Banking have better financial performance and more stable, with the analyze value which is no more different to ASEAN Islamic Banking.
7. Based on analyze Islamic Banking Disclosure and Performance Indices, that are concluded Indonesia Islamic Banking ready to facing the regional competitive to ASEAN Islamic Banking on AEC 2015.
8. The merger to establish the Islamic Banking state-owned is need to implement immediately, because this will increase significantly the quality of performance of Islamic Bank in Indonesia, and expected to survive the regional and/ or global competitive.

2) Recommendation

Recommendation to Indonesia Islamic Banking

1. There are need more encouragement and improvent to increase the Islamic Banking market share. But, this is need more time to adapt corporate culture, IT system, human resources, and others of 4 (four) banks.
2. Besides from the government, there are also need contribution of shareholders to accelerate the consolidation process/ merger. Because this will improve directly the efficiency of Bank's operational activities and productivities.
3. It is going to do to make Indonesia Islamic Banking to survive in AEC 2015.

Recommendation to the Further Research

1. It is recommended to conduct the further research after implementing of AEC in year 2015.
2. The further research should be done on all Islamic Banking in ASEAN.
3. For the further research, it is needed to add more variable (except disclosure and performance) in order to analyze the readiness of Indonesia Islamic Banking to facing AEC 2015.

When the merger has been carried out, further research to determine changes in the financial ratios of Islamic banks and / or conventional banks are converted into Islamic banks are advised to do.

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