

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

**IN THE NAME OF ALLAH
THE MOST GRACIOUS AND
MOST MERCIFUL**



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THE RESILIENCE OF ISLAMIC BANKING IN INDONESIA

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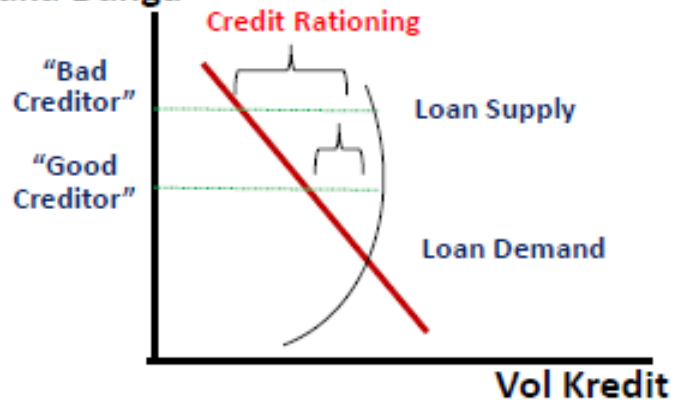


FINANCIAL IMPERFECTIONS

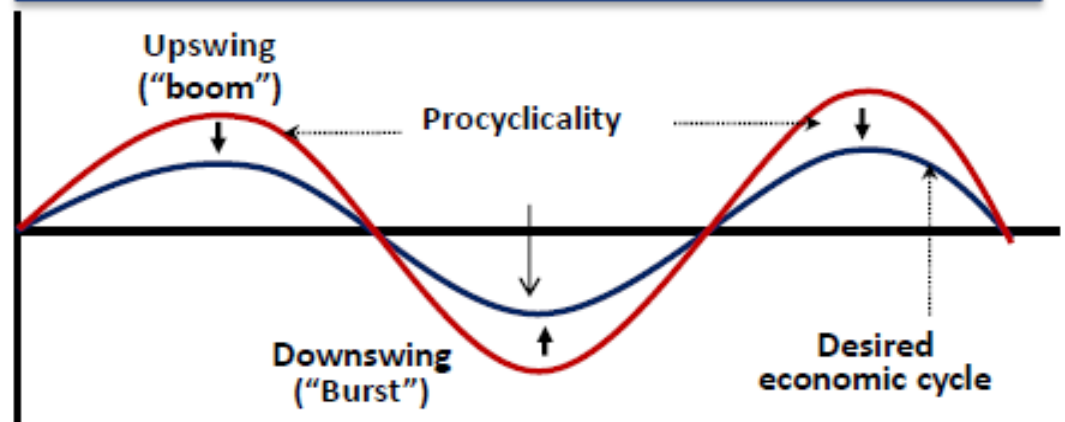
Financial imperfections (asymmetric information, market lemons, agency problem, moral hazard, dsb) menyebabkan risk taking behaviour, risiko sistemik (domino effect), dan prosiklisitas intermediasi sistem keuangan

Risk Taking Behaviour

Suku Bunga



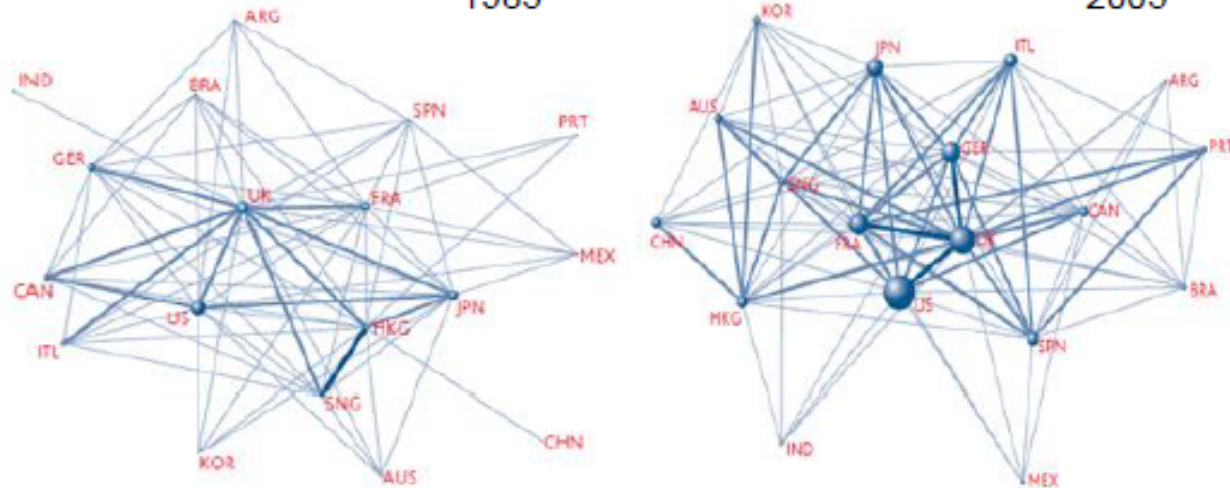
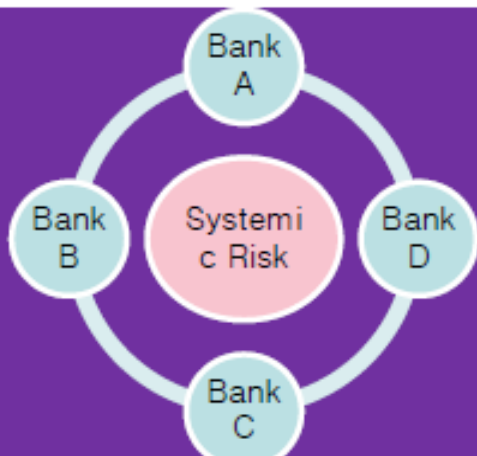
Procyclicality



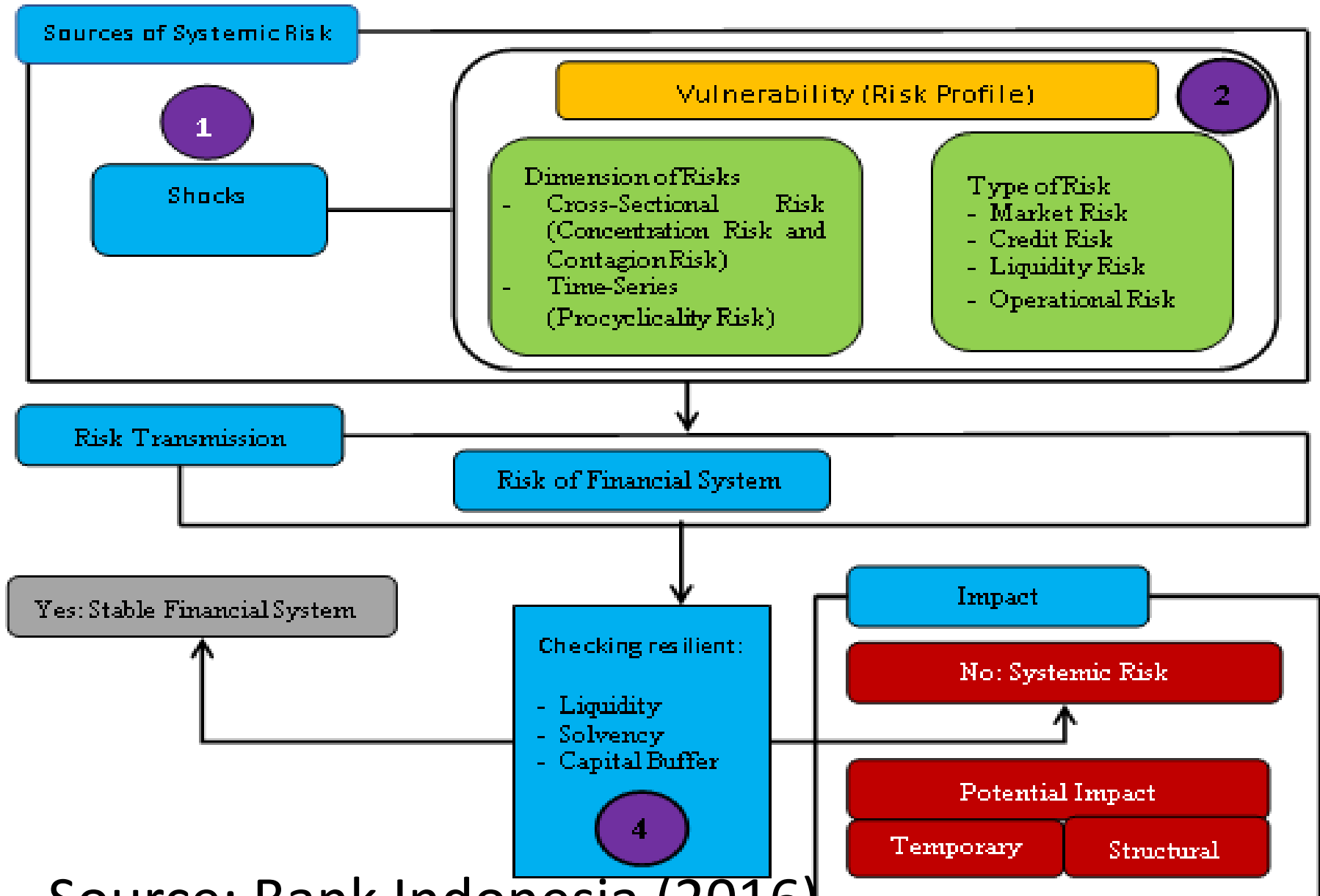
Interconnectedness

1985

2005



STAGES OF SYSTEMIC RISK



Source: Bank Indonesia (2016)



DEFINITION OF RESILIENCE



- (i) the system's ability to adapt to shocks without relying on government assistance in response to both short-term shocks and long-term changes in economic and financial conditions; and

- (ii) the system's ability to perform its essential economic functions to serve the real economy, thereby contributing to the entire economy's productivity and growth.

MICROPRUDENTIAL

MACROPRUDENTIAL



“Keeping individual financial institutions sound is not enough. A broader approach is needed to safeguard the financial system”.



LITERATURE REVIEW

The main risks in the banking system, including in Islamic banking, are:

1. Credit (credit cycle (Allen and Saunders, 2002) and liquidity risks.
2. A mismatch of balance sheets (Borio, 2010)
3. Funding constraints (Borio, 2004)

To manage risks in the banking system, ***credit risk and liquidity risk*** should be linked with ***the rate of growth of a bank's aggregate balance sheets*** by which ***remains surplus (high liquidity borrowers and short-term debt)*** (Adrian and Hyun, 2003; Cecchetti et. al, 2010; Tirole, 2011; Drehmann and Nikolaou, 2013).



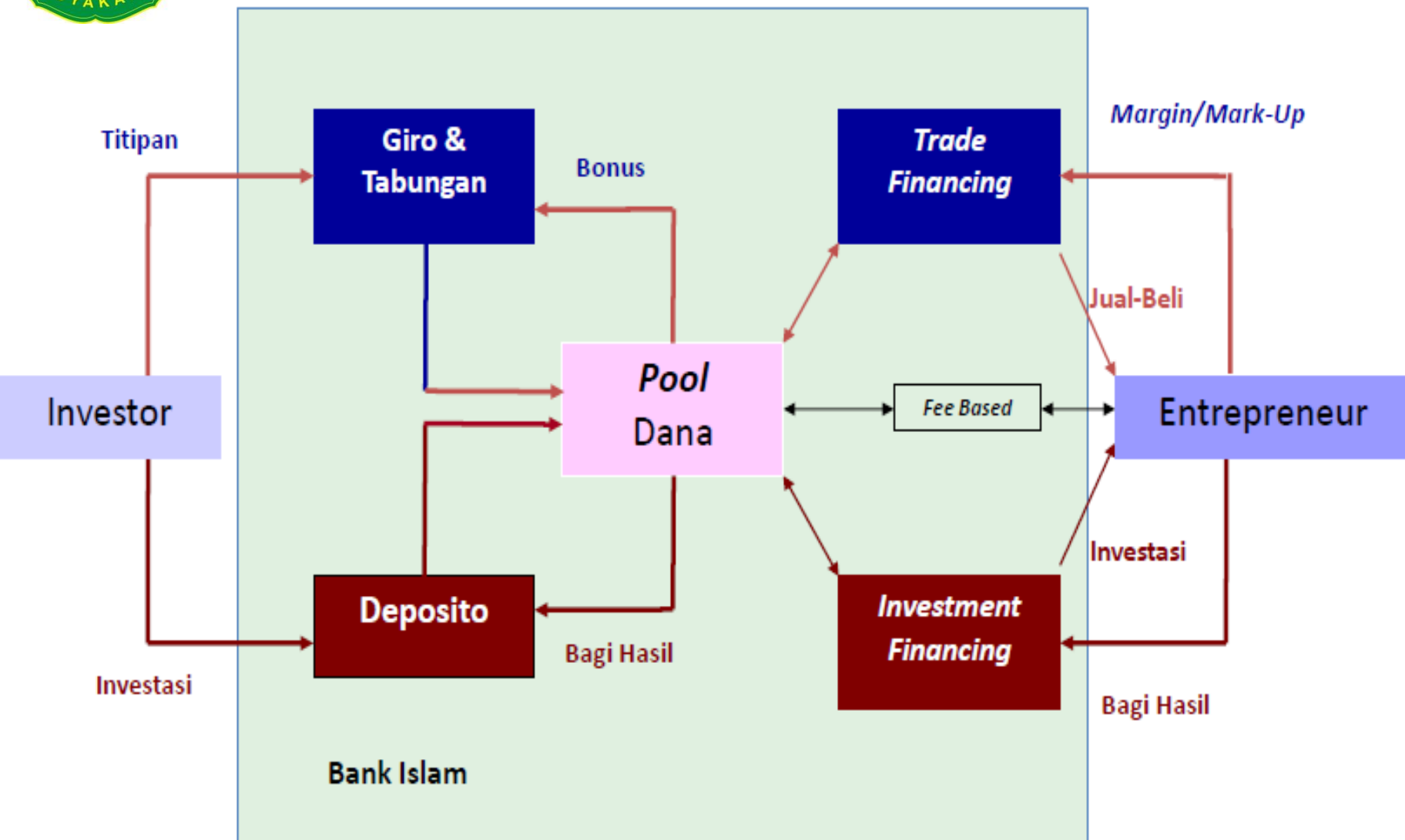
LITERATURE REVIEW (Cont...)

Farooq and Zaheer (2015), and Abedifar et al. (2013) (Aysan et al., 2015) (Beck et al., 2013), (Ferhi and Chkoundali, 2015) , Islamic banking is more resilient due to:

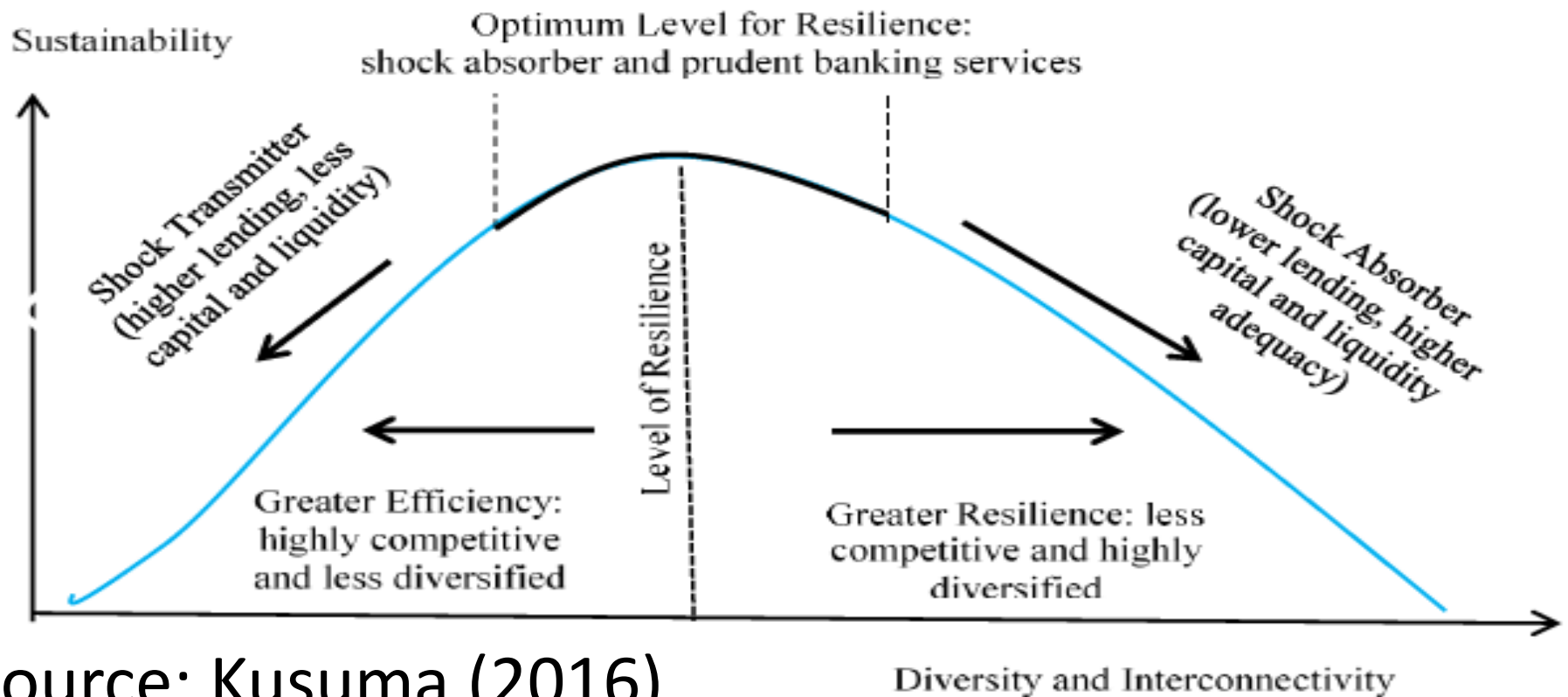
1. being better **capitalized**,
2. having lower **loan loss provisioning**,
3. having fewer **NPLs**,
4. having less **volatile asset returns**,
5. having depositor **discipline**
6. having a higher **intermediation ratio**
7. having higher **average efficiency**
8. being less exposed to **liquidity risk** due to being less sensitive to changes in deposits (Zaheer and Farooq, 2014; Akhtar et al., 2011),
9. the risks exposed in Islamic banking not being related to **efficiency** (Ferhi and Chkoundali, 2015).



ISLAMIC BANKING OPERATION



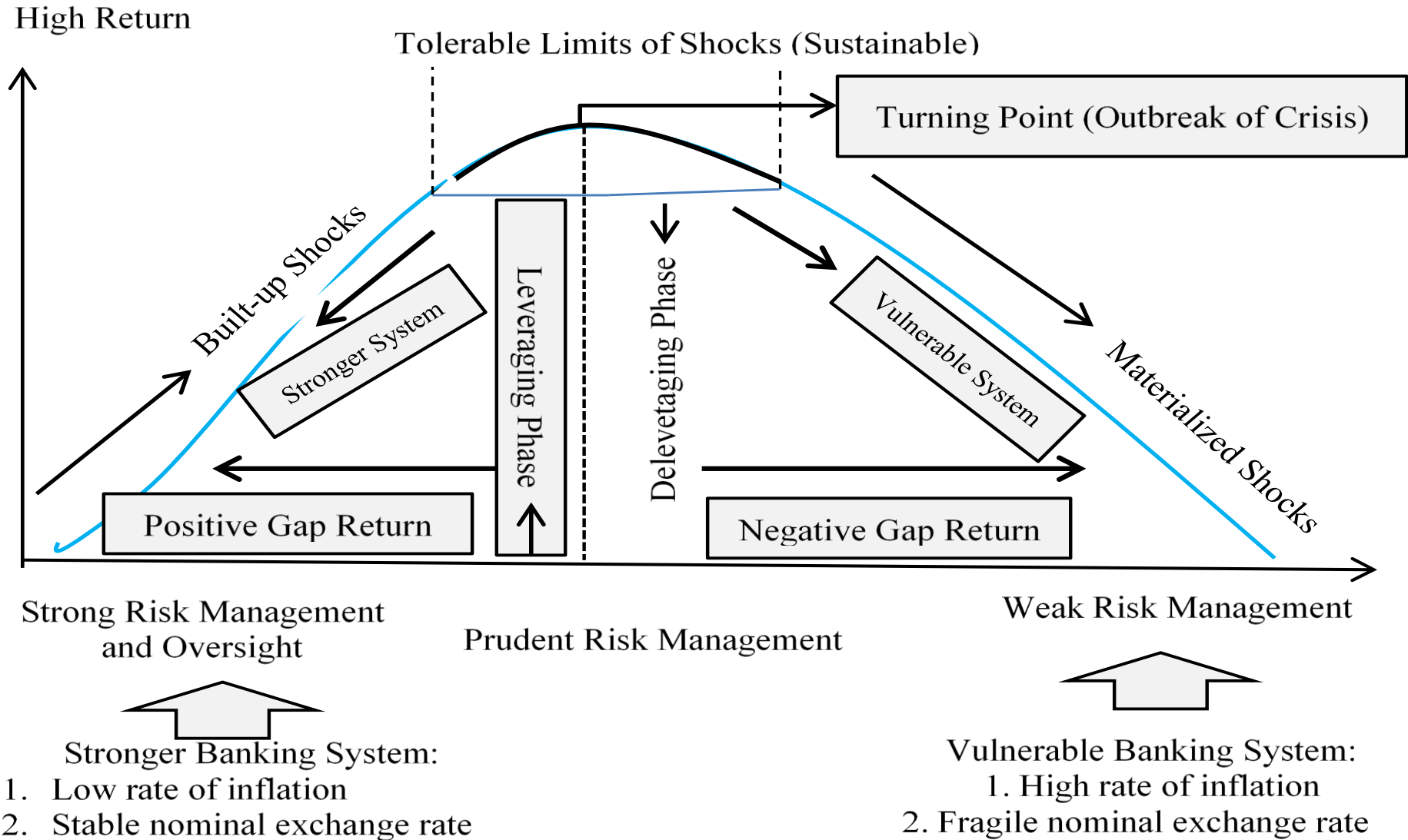
CONCEPT OF RESILIENCE



Source: Kusuma (2016)

Maintaining ***the level of resilience*** of Islamic banking. The level of resilience reflects the condition where Islamic banking is ***able to deal with shocks and stresses***, while ***continuing to function well*** in terms of its financial services (**sharing benefits with its environment**).

CONCEPT OF RESILIENCE



Source: Kusuma (2016)

NUMERICAL RESULTS FOR RESILIENCE

Tolerable Shocks Limits	Optimum Resilience Level
-1.25 < MVI < 1	-0.272 < IBRI < 1.268
Nominal Exchange Rate (NER) 8895 < NER < 9224	Pressure Index -0.417 < PI < 1.388
Rate of Inflation (INF) 3.55 % < INF < 6.39%	Intermediation Index 2.413 < II < 1.845
Source: Kusuma (2016)	Efficiency Index -0.636 < EI < 1.161
	NPF (%) 2.86 < NPF < 3.94
	ROA (%) 1.69 < ROA < 2.05
	CAR (%) 14.35 < CAR < 19.33
	LA (Ratio) 0.21 < LA < 0.26
	DRR (%) 9.28 < DRR < 10.26
	Time Deposit (TD) (%) 6.42 < TD < 7.19
	Financing Margin (FM) 16.04 < FM < 17.11
	GFDR (Gap) -3.73 < FDR < 2.30
	FDR (%) 91.36 < FDR < 97.21
	FGDP (Ratio) 0.12 < FGDP < 0.16
	GGDP (Gap) -391.01 < GGDP < -546.22
	NPM (%) 1.27 < NPM < 1.85
	CIR (%) 76.69 < CIR < 79.24
	CIR (Ratio) 0.58 < CIR < 0.63
	OHCPO (Ratio) 0.05 < OHCPO < 0.06



CONCLUSION



1. In the midst of Vulnerability, Uncertainty, Complexity, and Ambiguity (VUCA) World, policy makers should strengthen the resilience of financial institution (Islamic banking) by keeping the soundness of individual institutions and its environment.
2. Discovering the level of resilience is important to have ability in absorbing shocks and remain providing financial services
3. The level of resilience is represented by optimum level (interval) relating to financial ratios of individual institutions and level of macroeconomic indicators.



END OF PRESENTATION



**THANK YOU FOR YOUR PRECIOUS TIME
MAY ALLAH BLESS US WITH KNOWLEDGE AND WISDOM**

WASSALAM

